

## *Treatment of Women in the U. S. Social Security System, 1970-88*

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This article, a reprint of a paper presented in 1988 to the International Social Security Association, traces the debate from 1970 through 1988 over treatment of women in the Social Security system.

It traces issues relating to working women, couples with two earners, homemakers, widows, and divorced women. It describes the debate that led to widespread support for the concept of earnings sharing. It then addresses the paradox that despite continued widespread support for earnings sharing, despite continuation of the factors underlying its proposal, by 1988 no comprehensive legislation related to the treatment of women under Social Security had been enacted nor was being generally contemplated. This is still true in 1993.

The article argues that apparently insoluble, inherent conflicts among the objectives underlying earnings sharing ultimately doomed its enactment. Cost considerations, the realization of unintended side effects, and issues relating to transition to a very different Social Security system also helped remove earnings sharing from the legislative agenda.

The article also describes the role policy analysis played in the debate over this proposed reform.

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Beginning in the early 1970's and continuing through the early 1980's, there were pressures to examine and consider changes in the structure of the U.S. Social Security system to improve its effects on the equity and adequacy of benefits for women. (In this paper the U.S. Social Security system includes the retirement, survivors, and disability programs.)

A series of demographic, economic, and social changes affecting American families had resulted in questions being raised about how women fare under Social Security.

Briefly summarized, the issues related to:

- Better returns for working women and more equitable distribution of benefits for couples with one earner and couples where both spouses worked.
- Recognition of the economic value of homemaking.
- More equitable and adequate benefits for widows.
- More equitable and adequate benefits for divorced women.

This paper discusses features of the Social Security system as if they applied differently to men and women. This is not the case. The U. S. system is gender-neutral. However, many provisions affect men and women differently because of their different lifetime earnings patterns. For example, in the U. S. system, as discussed below, a person receives an amount equal to the higher of the amount he or she receives as a worker or the amount to which he or she is entitled as a spouse or widow or widower. [In point in fact, one always receives first the amount to which one is entitled as a worker and then a supplement equal to the difference, if any, between that amount and the amount to which one is entitled as a spouse.] This feature insures that virtually no men receive benefits based on their wives' earnings, while about three-fifths of women receive benefits as wives or widows of their husbands. Because of this and other characteristics of the U. S. system that have a somewhat different effect for most women than for most men, the issues will be described as though they relate exclusively to women.

## ***Working Women***

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Over the past several decades, the labor-force participation of women, especially married women, has increased dramatically. As a consequence, the family pattern of working husband and full-time homemaker wife is much less common than it was in late 1930's when the Social Security cash benefits program began. One result of this change was a realization by many women that the Social Security system did not provide them what they considered to be a sufficient return on the Social Security taxes they paid—particularly when they compared their future retirement benefits to those that would be received by full-time homemakers.

Shortly after the inception of the U.S. Social Security program, benefits were added for the wives and widows of workers on the presumption that benefits for a couple in which only the husband worked would not be adequate in retirement and, because wives are likely to outlive their husbands, they would need benefits in widowhood. The wife of a worker usually may receive an amount equal to half her husband's benefit and after he dies, a benefit equal to his retirement benefit. A person cannot receive the sum of what she is entitled to receive as a wife plus what she can receive as a worker; in effect, she receives an amount equal to the larger of the two benefits.

Working women argued that the marginal increase in their benefit amount (if any) over what they could get as a wife was not an adequate return on their taxes. Payment of the wife's benefit also meant that in general, a couple where only one spouse was entitled as a worker would receive more in Social Security retirement benefits than a couple where both spouses had worked and whose total income was the same as the one-earner couple.

## ***Homemakers***

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One of the social changes occurring in the early 1970's was an increasing perception of marriage as a partnership in which each spouse's contribution is of economic value to the family. Thus,

women are seen to be making economic contributions by working inside as well as outside the home. In terms of Social Security, the concern was to change the system in a way that eliminated the concept of women's dependency on their spouses and gave Social Security credit for years spent in homecare activities. The U. S. system is designed to replace earnings lost when a worker retires, becomes disabled, or dies. Unlike the systems of some other countries, it does not provide a universal entitlement or demogrant. Nor can a nonearner make voluntary payments to receive Social Security credits. Thus, a lifetime homemaker who has not worked long enough to qualify for Social Security benefits in her own right can receive them only on the basis of her relationship to her husband. Further, lifetime homemakers cannot qualify for benefits if they become disabled and if they die, their families do not receive survivors' benefits, married women can receive retirement benefits only after their husbands claim such benefits.

In addition, women who both worked for pay and who cared for children at different times in their lives argued that they were unfairly disadvantaged as a result of having had no or low earnings while caring for children. In the U. S. system, benefits are based on average earnings over a normal working lifespan. The 5 years with the lowest or no earnings may be dropped from the averaging period, but for many women those drop-out years did not adequately compensate for reduced earnings or nonearnings during childcare years.

## ***Widows***

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Another societal force bringing pressure for change was the fact that while the economic status of the aged as a group improved dramatically over the prior two decades, older women, especially widows living alone, continued to be very much at risk of living in poverty.

Although over the years a number of steps had been taken to improve the level of widows' benefits, calls still were made to use the Social Security system to improve widows' economic well-being.

Voices advocating higher benefits for widows soon were joined by others concerned with equity between survivors of couples with two-earners relative to those with one-earner. This concern stems from the fact that nonworking women may receive a benefit equal to 100 percent of their deceased husband's benefit. Survivors of couples where both spouses had worked can receive less than survivors of one-earner couples with the same total earnings.

## ***Divorced Women***

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Finally, the rising divorce rate of the mid-1960's focused attention on the adequacy of benefit protection for women who had spent many years as homemakers and whose divorced spouse benefits were, at most, half of the former spouses' worker benefits.

Divorced women receive the same benefits as married women. That is, if they are not eligible for a higher benefit on their own record and were married for at least 10 years, they may get a retirement benefit equal to half their ex-husband's benefit. Before the law was changed in 1983, they could receive this divorced wife benefit only after their ex-husband retired (an event, they argued, that little affected their own economic status). Of even greater concern was the inadequacy of a divorced spouse benefit if it was to be a primary source of income for the ex-wife and the fact that it did not recognize her contributions to the marriage as a housewife.

## ***Calls for Change***

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The combination of these four distinct but related changes culminated by the 1970's in a call for an examination of how various provisions of the retirement, survivors, and disability programs affected women.

Proposals for change in the treatment of women by the system tended to coalesce around very ambitious plans for comprehensive overhaul. One such plan was a double decker option in which a new two-layer benefit system would be established. A flat dollar benefit would be payable to everyone, regardless of

earnings, who met certain requirements (a demogrant). In addition, an earnings-related benefit would be payable on the basis of earnings from employment covered by Social Security. For a variety of reasons this plan was dismissed in the late 1970's and will not be discussed in detail here. A second option, and one that drew more widespread support, was earnings sharing. The main idea of earnings sharing is simple—that marriage is a partnership of equals and that each partner should have equal credit for total family earnings. This concept implies that each should have equal Social Security protection in his or her own right rather than on the basis of marital relationship or dependency on the other spouse.

The basic assumptions about who should receive Social Security benefits and under what circumstances are different under earnings sharing than under present law. Under earnings sharing, it is assumed that neither spouse is economically dependent on the other because both spouses contribute toward the well-being of the family whether as a paid worker, an unpaid homemaker, or both. Therefore, under earnings sharing, 50 percent of the total annual earnings of the couple would be credited to each spouse's individual earnings record. The benefits for each spouse would be based on one-half of the couple's earnings during years of marriage and on individual earnings while unmarried.

During the late 1970's and early 1980's, several national groups considered proposals to incorporate the earnings sharing concept into Social Security. The 1979 Social Security Advisory Council, 1980 National Commission on Social Security, and the 1980 President's Commission on Pension Policy expressed interest in the earnings sharing approach as a concept, but none endorsed a specific proposal.

In 1979 and the early 1980's, staff in the Department of Health, Education, and Welfare, which housed the Social Security Administration (SSA), undertook extensive analyses of the costs and distributional implications of numerous earnings sharing plans, transition schemes, and guarantees for different

types of groups. The legislative proposals were made and hearings were held on Capitol Hill and some consensus seemed to be building around the earnings sharing concept. In the end, there has been no policy change as a result of all of this analysis, discussion, and debate.

By the mid 1980's, the pressure for discussion and change had diminished to the point that today [1988] there is little momentum behind proposals for comprehensive reform and almost as little for incremental changes.

This paper discusses some of the economic and social forces that underlay the proposals for changes, describes the principal proposal for comprehensive reform and, finally, suggests some explanation of why reasons that pressure for changes have diminished while the underlying forces remain.

### ***The Four Issues Giving Impetus to Social Security Reform***

This section describes in greater detail the issues that were the underlying force behind proposals for comprehensive reform of Social Security in the 1970's and early 1980's. The reform proposal most commonly advocated was earnings sharing. This section also presents the arguments that were made about how earnings sharing would resolve the issues relating to working women, homemakers, widows, and divorced women.

#### ***Better Return for Working Women***

Concerns about benefits received by working wives began to be raised in the early 1960's as women who had worked during World War II began to retire and as women's participation in the work force grew dramatically. The dissatisfaction focused on a perception that the return on Social Security taxes paid by married women workers was not satisfactory.

Possibly the most far-reaching transformation of the U.S. labor force during this century has been its increasing feminization. In the early 1900's, less than 1 woman in 5 was in the labor force; by the early 1980's, more than 6 in 10 women aged 20 to 64 were in the labor force.

The growth in participation was uneven among various age groups.<sup>1</sup>

In the first four decades of the century, women of child-bearing ages increased their labor-force participation at a slightly faster rate than older women. If there were to be a permanent increase in female labor-force participation rates, one would expect the change to begin with young women.<sup>2</sup>

However, between 1940 and 1960, participation rates declined for women in their childbearing years—between 20 and 35—while jumping dramatically for those over age 35. After 1960, the pre-1940 pattern re-emerged, but on a greatly magnified scale. During the last decade, the participation rate of U.S. women ages 25-34 has risen by more than 2 percentage points per year.<sup>3</sup> Currently, the participation rate for women ages 20-44 is about 70 percent.<sup>4</sup>

Another way to illustrate the tremendous increase in female labor-force participation is to compare the rates at various ages across cohorts. Women born between 1920 and 1940 had relatively high participation at ages 20 to 24, a drop off in the remainder of the childbearing years, and an increase again after age 35. In contrast, the 1955 birth cohort has shown no decline in participation during its childbearing years.<sup>5</sup>

In terms of the pressures to reassess the Social Security system as a result of increased labor-force participation, the changed patterns for married women are especially relevant. Labor-force participation among married women increased from less than 14 percent in 1940 to more than 50 percent in the 1980's. Looking just at married women between the ages of 20 and 55, the current participation rate is over 60 percent.<sup>6</sup>

As more married women established potential eligibility for Social Security benefits based on their own earnings records, it is not surprising that working married women became dissatisfied with a system designed in an era of the stay-at-home housewives. Ironically, in 1939, when enacting the Social Security amendments that provided for the spouse benefit, Congress anticipated that more and more women would work and become eligible for benefits on their own

earnings records. What was not foreseen was the debate that would be caused by the continued existence of the wife's benefit.

Working women compared the benefit amount to which they were entitled as a worker on their own record to that to which they were entitled as the wife of a worker and were not satisfied with the marginal gain from their own work. Indeed, in 1985, more than one-third of women who were in fact eligible for benefits on the basis of their own earnings also received benefits as wives or widows of workers. These women argued that their years of Social Security taxes gained them nothing in retirement that they would not have received "for free" on the basis of their husband's earnings.

Because of the way the U.S. Social Security benefit formula works, a woman whose lifetime average indexed earnings are less than one-sixth of those of the couple's total lifetime earnings will always be eligible for a larger benefit on her husband's earnings record than on her own. Only if the wife earned at least one-third of the couple's total lifetime indexed income is she guaranteed a larger retirement benefit on the basis of her own earnings than she can receive as a wife. Thus, up to the point at which her income represents a substantial portion of the couple's total income, she may receive a benefit in retirement that is no higher than if she had never paid any Social Security taxes.

As shown in table 1, the age-65 nonworking wife of a worker retiring at age 65 in 1988 with average indexed monthly earnings of \$1,290 receives a monthly retirement benefit of \$313 as a

spouse. If she worked, but earned an indexed average of only \$200 (or one-sixth of the couple's joint earnings) over her lifetime, she still would receive a retirement benefit of \$313 (\$180 on the basis of her own earnings plus \$133, or the difference between her worker's benefit and her spouse's benefit). Thus, her own work effort would not increase her benefits in retirement. If she has average indexed earnings of \$600, she would be eligible for a worker's benefit of \$354; she would not receive any spouse's benefit because her worker's benefit is bigger than \$313. Therefore, she would receive only \$42 a month more in retirement benefits than if she had never worked in paid employment.

Total benefits payable to couples where both spouses worked also were compared to those payable when only one spouse had earnings. The results were unfavorable to two-earner couples.

As shown in table 2, if the husband has all the earnings, his wife is eligible for a wife's benefit equal to half of his: Their combined retirement benefit will be 150 percent of his full retirement-age benefit. If the same total amount of earnings is divided equally between a husband and wife, they will receive lower total retirement benefits. Thus, in the example below, the two-earner couple's retirement benefit is equal to only 78 percent of the one-earner couple's retirement benefit.

Of course, the working wife will have received valuable additional protection based on her own contributions that is not available to the spouse who has not worked in covered employment. The working wife will have had protection

for herself and her children if she becomes disabled, protection for her survivors if she dies, and retirement benefits payable to her whether or not her husband retires. However, these additional protections against events that might well not occur were not seen as adequately offsetting the certainty of a small marginal return—in terms of retirement benefits—on the taxes she had paid. Some argued that to represent a fair return on Social Security taxes, additional taxes should result in additional protection equal to at least the value of the worker's own additional contribution. Retirement benefits do not meet that test of equity when compared to the amount payable to spouses on the basis solely of their husband's earnings. And it is hard to quantify the value of protection against disability and against the possibility of one's own death.

Discussion of this issue began in the early 1960's. The Committee on Social Insurance and Taxes of the 1963 President's Commission on the Status of Women was one of the first public panels to examine the treatment of the working wife under Social Security. The committee looked at payment of benefits to women not only in absolute terms, but also relative to noninsured wives and to other workers. The committee concluded, as others would do later, that in many ways working wives are treated fairly. The committee's report noted that working wives:

- Like other workers, on average, receive benefits on their own earnings that represent more than the equivalent of their own contributions.

Table 1.--Effects of duplicate protection

Earner couple	Average earnings	Portion of benefit for wife as--		Total payable
		Worker	Spouse	
Couple A:				
Husband.....	\$1,290	...	...	...
Wife.....	0	\$0	\$313	\$313
Couple B:				
Husband.....	1,290	...	...	...
Wife.....	0	180	133	313
Couple C:				
Husband.....	1,290	...	...	...
Wife.....	600	354	0	354

Source: Social Security Administration calculations.

- Often do receive higher benefits on their own earnings than as wives.
- Are protected partially from the effects of gaps in their own earnings histories by the fact that the benefit formula is weighted. (In the United States, the formula is structured to provide higher earnings replacement rates for low earners than for higher earners.)
- Have protections not available to noninsured wives, such as disability protection, survivor's protection for their children, and retirement benefits that are independent of the husband's work status.<sup>7</sup>

The committee concluded, however, that the feelings of inequity had to be acknowledged and that some increase in benefits for working wives could be justified:

Nevertheless, the feeling of the working wife that she should receive more in benefits than the nonworking wife has some merit. Not only have both she and her husband contributed to the program, but the fact that she has had earnings also means that the family unit suffers a greater loss in income on retirement than if only the husband had worked.<sup>8</sup>

The committee recommended that the spouse's benefit for the working wife be offset against her benefit based on her own work record by \$1 for \$2 earned instead of \$1 for \$1. The wife's benefit, then, would be reduced to zero only when her own benefit equaled or exceeded her husband's. (Now the wife's

benefit is reduced to zero when her worker's benefit equals half the husband's full retirement-age benefit.)

The committee's plan at that time would have cost 0.15 percent of taxable payroll if, as the committee recommended, it applied only to wives and not to widows as well. The full 1963 Commission on the Status of Women did not endorse this proposal. In the late 1960's, a new dimension was added when the issue was cast not only in terms of working versus nonworking wives, but also in terms of one-earner couples versus two-earner couples with the same combined earnings.

Like the 1963 committee, the 1968 Task Force on Social Insurance and Taxes of the Citizens' Advisory Council on the Status of Women cited concern about the need for working wives to receive more, based on their own Social Security earnings, relative to nonworking wives. The task force went further, however, in charging that an inequity existed between couples:

[A]n anomalous situation is created whereby an aged couple may get less in total monthly benefits if both the man and wife worked than a couple getting benefits based on the same total earnings where only the husband worked.<sup>9</sup>

The task force thus recommended a proposal to equalize benefits paid to one- and two-earner couples by "leveling up"—that is, by raising the level of benefits paid to two-earner couples. The specific concept endorsed by the task force was the use of couples' earnings as a base for computing couples' benefits, a concept incorporated into a bill introduced in the U.S. Congress in 1967 by

Representative Martha Griffiths. The Griffiths bill in 1968 was estimated to cost 0.52 percent of taxable payroll.<sup>10</sup>

The task force also noted, however, that "the long-run solution may take a different approach" and recommended consideration of a double-decker plan:

Realizing the "social" aspects of the system with respect to lower paid workers and workers with dependents, we recommend for the consideration of the next Advisory Council on Social Security a system that would (1) provide for meeting their social needs through a socially adequate benefit financed out of general revenues and (2) provide for supplementation of this basic benefit by contributory wage-related benefits for those who worked in covered employment.<sup>11</sup>

The labor union member of the task force objected to the double-decker approach, arguing that a benefit financed from general revenues could become subject to a means test. The union representative also objected to the combined-earnings plan because raising benefits for workers who are married to each other could generate new issues of fairness with regard to single workers. The "marriage bonus" for workers who are married might also be viewed as a "singles penalty" for those who are not married.

Throughout the 1970's, various groups continued to advocate raising benefits for working wives and equalizing benefits between one- and two-earner couples with the same combined earnings. New voices also joined the debate, however, casting these issues in slightly different ways.

Table 2.--Benefits for one- and two-earner couples with the same total earnings

Earner couple	Average earnings	Portion of benefit payable as--		Total payable
		Worker	Spouse	
<b>One-earner couple:</b>				
Husband.....	\$1,290	\$626	\$0	\$626
Wife.....	0	0	313	313
Combined.....	1,290	...	...	939
<b>Two-earner couple:</b>				
Husband.....	645	368	0	368
Wife.....	45	368	0	368
Combined.....	1,290	...	...	736

Source: Social Security Administration calculations.

- Some wanted to eliminate “dependency” by phasing out spouse’s benefits. Early proponents of this view were more concerned with improving the treatment of working wives relative to nonworking wives than with equalizing benefits between one- and two-earner couples.
- Some favored equalizing benefits between one- and two-earner couples and were willing to accept a relatively high cost to achieve that end. They argued for approaches that “leveled up” by raising benefits for two-earner couples. Some such plans included raising benefits for single workers, so as to avoid creating a “singles” issue.
- Others also favored equalizing benefits between one- and two-earner couples, but advocated leveling down benefits for one-earner couples as a way to achieve that end without increasing costs or generating new issues of fairness between couples and single workers.

One element of agreement among these disparate views was a belief that couples with the same combined past earnings should have the same combined retirement benefits. This principle was not reflected in the existing Social Security benefit structure. The concept of earnings sharing seemed to provide a way to incorporate the principle into the Social Security system. Working from the belief that the concept could achieve equity in benefits between one- and two-earner couples, several groups developed detailed plans for incorporating earnings sharing into the Social Security systems.

### *Recognition for Homemakers*

The second underlying factor that resulted in calls for changes in the Social Security benefit structure was the increasing perception of marriage as an economic partnership and of the wife’s economic contribution to the marriage as being valuable whether she works inside or outside the home. This translated into an argument that the Social Security

structure should recognize the economic value of home work.

From that view stemmed the belief that homemakers should be entitled to disability benefits and that their survivors should receive benefits if they die. If homemakers become disabled, their families may incur high medical and perhaps other expenses. If homemakers become disabled or die, their family may also have expenses to replace their work as homemakers. The Social Security system now is structured to replace only wages lost when a paid worker retires, becomes disabled, or dies. Because a homemaker’s services are valuable, it was argued that the family should have Social Security protection against the disability or death of the homemaker.

The view that marriage is an economic partnership and that the work of a homemaker has economic value also made it philosophically distasteful to many women to receive benefits that are a function of their husband’s benefits. While wives’ benefits were designed to ensure the adequacy of payments for retired couples and widows, many argued that benefits should be paid to wives because of their own economic contribution to the family, regardless of the husband’s entitlement to benefits.

In 1976, the National Commission on the observance of International Women’s Year recommended that “the homemaker be covered in her own right under Social Security to provide income security to the risk of old-age, disability, and death.” The commission further recommended that the Secretary of what was then called the Department of Health, Education, and Welfare “be directed to give high priority to developing an Administration proposal achieving this purpose.”<sup>12</sup>

The commission reported that its recommendation would enhance the status of homemakers and avoid the notion of dependency. It favored homemaker credits that would provide (1) disability protection for homemakers, (2) higher benefits for women with careers divided between childcare and paid work, and (3) higher benefits for a di-

vorced woman that are independent of the former husband’s status. The issue, however, was cast in terms of the guiding principle of independent recognition of homemakers’ work, rather than of the particular results. It was implied that homemakers should receive at least the level of benefits that the present system provides. It was thought, however, that those benefits should stem from independent credits. The new principle seemed to be to treat homemakers like paid workers and eliminate “dependents” benefits.

This principle of treating nonpaid work in the home the same as work for pay lent itself to several possible ways to change Social Security earnings computations. The change most consistent with a comprehensive reform proposal based on earnings sharing was crediting one-half of the total market earnings of married couples to each spouses’ earnings record. One-half the credits would “belong” to each spouse and each could receive benefits based on his or her share of the couple’s earnings. In combination with the elimination of wives’ and widows’ benefits, this type of earnings crediting scheme would acknowledge the economic value of nonmarket, as well as market, work.

Other options included homemaker credits and childcare drop-out years that would also have the effect of enhancing women’s earnings records for time spent out of the paid work force. Homemaker credits would involve adding earnings credits for years spent at home. The credits could be voluntarily purchased or simply added to the records of all married women. Childcare drop-out years would mean subtracting from the averaging period some of the years of low or zero earnings associated with years spent at home caring for children.

Homemaker credits and childcare drop-out years have been criticized because they acknowledge the nonmarket contributions of some women but not others. Mothers who must work for pay also have homemaker and childcare responsibilities. Working mothers were not sympathetic to the idea of their Social

Security taxes being used to increase benefits for those who stayed home full time to care for children.

### *Adequacy and Equity for Widows*

The first two issues discussed in this paper involved new standards of fairness that particular groups thought should be incorporated into the structure of the Social Security system. The first principle was that couples with the same combined earnings should have the same combined retirement benefits. The second was that homemakers should be treated like paid workers and benefits paid on the basis of "spouseship" should be eliminated.

The third issue deals more with adequacy than equity but also incorporates an equity consideration.

In the 1960's and 1970's, the Social Security system matured and benefits were increased in real terms as well as to adjust for the full effects of fairly high inflation. Indeed, growth in benefit amounts and increased benefit receipt by older persons resulted in significant declines in poverty rates among the aged as a group. Between 1959 and 1986, the overall poverty rate among all aged persons fell from 35 percent to 12 percent. Yet poverty remained stubbornly high among aged women living alone. By 1986, the poverty rate among aged families was 6 percent, while among aged women living alone it was still 27 percent.<sup>13</sup>

The long-standing problem of extremely low incomes among widows and other aged women was attributed in part to low levels of Social Security benefits they received based on their deceased husbands' earnings records and to their lack of other income sources. The report of the 1979 Advisory Council on Social Security noted that for 36 percent of all aged nonmarried women in 1976, Social Security benefits accounted for 90 percent or more of income; for 74 percent, Social Security represented more than half of all income. Some 35 percent of all aged widows and widowers in 1976 were living in poverty even after including Social Security benefits, compared to 9 percent of aged married couples.<sup>14</sup>

It was argued that several features of the Social Security benefit structure resulted in relatively low benefits for widows. First, a retired worker and a dependent spouse are entitled to retirement benefits at age 65 equal to 150 percent of the worker's full retirement-age benefit. In cases where a full spouse benefit is payable, when the worker dies, the benefit is reduced by a third; the spouse is entitled to a benefit equal to the worker's. It was argued that for many widows—and single workers—this amount is not adequate.

Further, if a worker claims retirement benefits before age 65, those benefits are actuarially reduced, and the reduction is subsequently passed along to his survivor. Thus, the amount that the widow receives is less than would have been payable had her deceased husband not claimed early retirement benefits. It was argued that actuarial reductions thus contributed to poverty among widows. Third, it was argued that benefits for widows were low because widows were more likely to receive benefits based on outdated earnings. They may reach the age of eligibility for widow's benefits—age 60—many years after their husbands died. Before a 1983 legislative change, their benefits were based on his outdated earnings. As a result, a widow's benefit was related to a prior standard of living, rather than the standard of living at the time she came on the benefit rolls. (Since 1983, widows' benefits have been wage-indexed to the point at which she becomes eligible for benefits.)

These concerns about the adequacy of widows' benefits were long-standing and continued despite a series of liberalizations in prior years that had resulted in an increase in real terms in average aged widows benefits from \$126 a month in 1950 to \$311 a month in 1980 (in 1980 dollars).<sup>15</sup>

In the 1970's, concerns about the adequacy of benefits for widows became grafted to concerns about equity of benefits for survivors of one- and two-earner couples. As noted above, the benefit payable to the survivor of a couple where only one spouse received benefits as a worker is reduced by one-third (from 150 to 100 percent of the worker's benefit)

when the worker dies. However, if both spouses were receiving benefits only as workers, the survivor continues to receive only her own benefit if it is equal to or higher than her survivor's benefit. If lifetime earnings—and thus benefit amounts—were equal between the spouses, the survivor would be left only half the Social Security income the couple had been receiving. Further, as with retirement benefits of one-earner and two-earner couples with the same total income, benefits for survivors of one-earner couples could be higher than for the survivors of two-earner couples with the same total income.

Earnings sharing seemed to offer a means to fix this inequity. No one wanted to make the distribution of benefits more fair to survivors of two-earner couples by paying less to survivors of one-earner couples. Thus, instead of leveling down—as was generally proposed for retirement benefits—it was proposed to increase benefits for survivors of two-earner couples by letting them "inherit" their spouse's earnings credits. Under an "inheritance" scheme a survivor would receive benefits based on all his or her own credits plus all those of the deceased spouse from the years of marriage. It was assumed that this "inheritance" provision would then improve the adequacy of benefits for widows, as well as improve the equity of benefit amounts for survivors of two-earner couples.

### *Adequacy and Equity for Divorced Women*

The fourth issue involves (as did the third) both adequacy and fairness concerns, this time relating to divorced persons. The rising divorce rate focused attention on the problems of divorced women, not only with regard to Social Security, but also with respect to other Federal programs and State laws regarding property rights. It was argued that women divorced in mid-life or in old age often had low incomes and few opportunities for improving their status.

In the current system, a woman divorced after 10 years of marriage is eligible for the same benefits as a married woman. [Women divorced before

being married 10 years are not eligible for Social Security benefits based on the marital relationship.] This approach was criticized because divorced women's situations are different from those of wives. For divorced nonworking retired women, the spouse's benefit was not a supplement to a partner's benefit. It was the only benefit. It was considered inadequate and the payment of a full benefit to a divorced man and of a 50 percent benefit to the ex-spouse who had kept his home was considered unfair. Yet to pay higher benefits to divorced women than to wives would have created a so-called divorce bonus or marriage penalty because divorced women would be treated more favorably than those who remained married.

One proposed solution was to regard marriage as a partnership of equals. The National Women's Conference, held in Houston, Texas, in November 1977, adopted the following resolution: "The Federal Government and State legislatures should base their law relating to marital and property, inheritance, and domestic relations on the principle that marriage is a partnership in which the contribution of each spouse is of equal importance and value."<sup>16</sup>

The partnership concept thus provided a new principle for Social Security reform proposals: At divorce, treat both parties alike by giving half the couple's combined earnings credits to each. Again, support for the principle was gained from both those who were concerned about the relative level of benefits available to divorced women and their ex-spouses and those who wanted to raise the absolute level of benefits available to divorced women. The 1979 Advisory Council on Social Security thus recommended consideration of earnings sharing for divorced couples, and only for divorced couples. Others argued, however, that it would not be fair to married women to give divorced women rights not accorded to married women.

In sum, then, a new set of principles was embraced, both by those who wanted to improve the absolute level of benefits for many individual women, as well as by those who believed that the Social

Security system should reflect new principles about who should be treated alike between one- and two-earner couples and between their survivors, between husbands and wives, between homemakers and workers, between divorced spouses, and between married and divorced persons. It was hoped that the adequacy concerns could be achieved in the course of implementing the new principles and that the new principles could co-exist with existing aspects of the Social Security system for which there was, and continued to be, broad-based support.

### **Summary of Four Issues and New Policy Principles**

As these four issues were developed and discussed, a disparate set of concerns about the Social Security system found common expression in a new set of principles about who should be treated alike—specifically, that:

- Couples with the same combined earnings should be treated alike.
- Survivors of couples with the same combined earnings should be treated alike.
- Homemakers should be treated like paid workers, and benefits based solely on "dependency" or the marital relationship should be eliminated.
- At divorce, both parties should be treated alike in order to reflect the principle of marriage as a partnership of equals.
- Married people should be treated like divorced people in order for the Social Security system to remain neutral with regard to divorce.

In addition to those concerned with equity, some who supported these new principles hoped that benefits could be increased, in absolute terms, for widows, divorced women, working wives, and homemakers.

These principles underlay the development of and provided the focus for initial analyses of the earnings sharing plan presented in a 1979 Department of Health, Education, and Welfare (HEW)

report, *Social Security and the Changing Roles of Men and Women*.<sup>17</sup> The desirability of the principles and the appropriateness of their incorporation into the Social Security system were taken as given; the analytic exercise for the next several years was to see how they could be achieved.

### **Whither Earnings Sharing in the 1980's**

By the beginning of the 1980's, the debate over treatment of women under the Social Security program had advanced to the point that earnings sharing had been laid out in detail and analyses of its costs and distributional effects had been conducted. While some problems had been identified, there was confidence that modifications could be made to reduce or eliminate them. Advocacy groups and a number of Members of Congress endorsed earnings sharing or some other type of comprehensive reform. Several full-scale earnings sharing plans had been introduced in Congress and support for the concept was expressed in the 1980 Democratic Presidential campaign platform.

Given the optimism and enthusiasm of these discussions in the early 1980's, one would not be surprised if by 1988 some set of legislative changes had been enacted and implemented. The driving forces giving impetus to earnings sharing continue. Poverty among widows is still high relative to other groups, divorce still is common, paid work is increasingly more likely among married women, and the responsibilities and rewards of marriage continue to be more equally shared between husband and wife. Thus, it would seem likely that Social Security issues resulting from these forces would still be—if not resolved—actively debated. In fact, no comprehensive legislation related to the treatment of women under Social Security has been enacted during the 1980's and none is now being widely contemplated. There is virtually no discussion of whether Social Security treats women fairly. Debate over poverty among older women is sharing attention in the public



arena with concern about health care issues. To the extent that proposals are made to improve income, the proposals tend to be made with regard to the means-tested programs. The reasons for this lack of action provide some insights into the general policy-making process relating to Social Security matters and into the feasibility and desirability of earnings sharing as a method of resolving women's Social Security concerns.

### *Conflicting Objectives*

Perhaps the fact that contributed most to stalling a legislative solution to women's concerns was that in developing a detailed plan it became clear that there are some inherent conflicts among the objectives that provided an impetus to earnings sharing. These conflicts appear insoluble. The concept of earnings sharing is broad enough and flexible enough in theory to respond to all the concerns expressed in the 1970's. However, development of specific plans forced tradeoffs between objectives. In some cases, internal conflicts became apparent between improving the equity of the system and improving the adequacy of benefits for special groups. In other cases conflicts occurred between the new principles and attributes of the present system that still have popular support.

*Equity versus adequacy of benefits for couples.*—One of the primary conflicts was between the newly defined fairness standard of treating alike couples with the same combined earnings and the objective of maintaining adequacy of benefits for one-earner couples. Budget constraints dictated that the approach be cost neutral. Thus, the most widely discussed earnings sharing plans dropped wives' benefits, while providing new benefits based on earnings shared between spouses. As a result, benefits for one-earner couples usually would be lowered to the level paid to two-earner couples with the same combined earnings. Analyses based on microsimulation projects showed that one-third of all couples would receive at least 5 percent less under earnings sharing than they would under present law

and that 15 percent would receive at least 10 percent less than under present law.<sup>18</sup> Many analysts and advocates, while endorsing the concept of equal benefits for couples with equal earnings, were not willing to achieve this at the expense of reducing benefits for the traditional family.

The concern was not only economic, it was political as well. Several observers, including the 1979 Social Security Advisory Council, questioned whether the principles that earnings sharing incorporated did, in fact, represent a genuine consensus of American society: "The Council believes that it is important that the change reflect the views not only of those who are vocal, but also of the preponderance of those who would be affected by the application to Social Security of a view of the marital partnership that breaks with tradition." In particular, the Council was concerned about mandating a transfer of benefits from husbands to wives and about providing benefits when no labor force earnings are lost. "Broad support of such fundamental change (in the Social Security system) is essential to its success," the report concluded.<sup>19</sup>

*Adequacy versus equity of benefits for widows.*—A similar conflict arose between the new principle of fairness and the continuing concern about adequacy of benefits for aged widows and surviving divorced wives.

While many other aspects of specific earnings sharing plans differed, virtually all "solved" the problem of inequity of benefits between survivors of one- and two-earner couples by "leveling up" via the mechanism that would allow widows to "inherit" their husband's earnings from the years of marriage. It was assumed that this "fix" also would improve the adequacy of benefits for widows. However, some widows would receive lower benefits than under present law if existing survivors' benefits were phased out. Present-law widows' benefits are based on the deceased spouse's earnings, averaged over his entire working lifetime. Under inheritance, the benefits paid to widows would be based on average earnings of the widow over her working-age years, augmented (up to the

maximum level creditable) by the earnings of the deceased spouse only for those years in which the two were married.

The microsimulation-based analysis showed that the inherited credits would not be an exact substitute for present survivors' benefits. Indeed, while inheritance moves in the direction of equalizing benefits between survivors of one- and two-earner couples, whether a given widow gets more or less depends largely on the length and timing of her marriage and the date of her husband's death. And, instead of having the overall effect of increasing widows' benefits, inheritance could lower benefits for many. One "model" plan developed by the Social Security Administration would have resulted in lower benefits for 13 percent of widows, with a 26 percent average reduction in the benefit amount among those whose benefits were reduced.<sup>20</sup> Thus, ironically, it seemed that a non-trivial proportion of widows could be made worse off by a plan intended to help them.

*Shared earnings versus earning replacement.*—The conflicts discussed above arise primarily because of elimination of wives' and widows' benefits and the formulation of earnings sharing plans that leave aggregate Social Security expenditures relatively unchanged. There are also inherent conflicts between earnings sharing and the individual earnings replacement principle that is integral to present law. The conflict is not as obvious when the analysis focuses on couples in which both members are beneficiaries or in which both are not. The conflict becomes clear, however, when we consider couples in which only one member is retired or disabled. Under present law, the earnings replacement principle dictates that the benefit paid should be related to the lost earnings of the disabled or retired worker. The principle of shared earnings, in contrast, dictates that the benefit be based on half the couple's prior earnings regardless of whether all, some fraction, or none of the couple's earnings were lost by the one worker's disability or retirement. For example, the value of homemaking would be recognized by providing a

benefit based on shared credits to her if she became disabled. To accomplish this objective, benefits would be lowered for primary earners when they become disabled. This redistribution—smaller benefits when more earnings are lost and more benefits when smaller or no earnings are lost—would be difficult to justify on the grounds of either earnings replacement or income adequacy. It is doubtful that a plan incorporating such a feature could survive the political process necessary for enactment.

The resolution of these conflicts in a way that is philosophically satisfactory, politically realistic, and feasible from a budget perspective has thus far eluded the most ardent advocates of earnings sharing. A task force composed of representatives of a wide range of women's interests has worked since the early 1980's to develop a plan around which they could coalesce. Such a plan has not yet come forth. [Subsequent to preparation of this article, a comprehensive earnings sharing plan developed by the task force, Technical Committee on Earnings Sharing, was published: *Earnings Sharing in Social Security: A Model of Reform*. Center for Women Policy Studies, Edith Fierst and Nancy Deff Campbell (eds.) Washington, D.C., 1988.]

### **Other Death Knells**

In addition to the conflicts discussed above, other factors occurring since the early 1980's have helped virtually eliminate earnings sharing from the political agenda.

As was discussed earlier in this section, one of the reasons that the movement stopped short of actual resolution of these issues is that earnings sharing plans considered to be politically realistic were cost neutral. This inevitably meant that if benefits for some were to be improved, significant numbers of other beneficiaries would lose money. Plans with net costs were dismissed (or never developed) for several reasons. First, Social Security was facing major short- and long-term financing problems that were resolved in early 1983 only after protracted and agonized negotiations. In

light of the painfully achieved and delicately balanced agreement to raise Social Security taxes to finance currently promised benefits, it was clear that new proposals that would require even more expenditures would not be well received.

Second, once Social Security's own financing problems were solved, the surplus in its accounting system could be used to offset deficits in the rest of the Government spending ledger. Indeed, the pressure has been to further reduce Social Security spending in order to increase the funds that might be borrowed for other government expenditures (for example, by delaying or not implementing cost-of-living adjustments). Third, comparisons of the economic well-being of the aged to that of the nonaged indicated substantial improvement over the last 15 years in the relative status of the aged as a group. This improvement, and a feeling expressed by some that the aged are receiving at least their fair share of Government expenditures, reduced any impetus for the expenditures that could be required to protect current or future beneficiaries as a group from benefit decreases associated with earnings sharing.

*Side effects.*—An important part of the work undertaken by those who developed detailed proposals was exhaustive study of the unintended side effects of the new benefit structures. Policy analysis organizations inside and outside government used computer simulation models to compare the distribution of benefits under alternative benefit formulae as compared with current law. Given the extraordinary complexity of the benefit formulae and the large number of demographic groups to be studied, detailed examination of winners and losers was possible only because of the simulation capacity developed in the 1970's. Once having faced the fact that each new plan created losers as well as gainers, analysts and advocates attempted to find ways to protect the losers while not increasing costs tremendously or unduly distorting the new principles of fairness being incorporated into the system.

While the ability to analyze winners and losers permitted development of ways to avoid unintended negative ef-

fects, it also forced various analysts and advocates to spend remarkable amounts of time creating and examining the effectiveness of numerous protections for very specific classes of women. One result of this continual fine tuning was to dampen enthusiasm for this type of comprehensive reform. It was becoming all too complicated for general comprehension, and the enormous inefficiency of using a universal social insurance program to target on very specific pockets of need became obvious. The simulation results had the same effect as throwing water on a fire.

*Long transitions.*—Another factor that contributed to the stalling of efforts for comprehensive reform was that the transitions to the new earnings sharing systems were extraordinarily long, that is, several decades. Long transition periods resulted first because it was not technically feasible to institute earnings sharing retrospectively. The U.S. Social Security Administration does not have the information on marriages and divorces to allow it to split earnings for past years. Thus, earnings sharing could be instituted only forward from the point of enactment. Second, because even under those plans that leveled up there would be losers (intentionally—that is, divorced men) it seemed necessary to have a lengthy phase-in period.

In the meantime, questions were raised about whether earnings sharing was designed to address concerns that would no longer be pressing or relevant by the time the plan was fully implemented. Certainly prospective earnings sharing could do nothing to help those now receiving benefits or even those approaching retirement age. Analysis cast some doubt about whether the concerns that were the driving force behind earnings sharing would continue to point to a need for the same kinds of reform in the future. For example, steadily increasing labor-force participation ultimately will mean that for many women benefits as workers will outstrip benefits as spouses or widows, thus (1) removing a source of current irritation and (2) making it potentially easier to drop wives' and widows' benefits even absent a comprehensive plan like earnings sharing.

Further, existing data showed that very few divorced women receive benefits based on their ex-husband's earnings records. The vast majority have such strong earnings records of their own that they do not qualify even for partial benefits as wives or widows. In addition, incremental changes in widows' benefits over the past two decades have increased their adequacy. As a group, widows now coming on the roles, unlike widows of a generation ago, do receive benefits that are sufficient to bring their income above the poverty line even if Social Security is their sole resource.<sup>21</sup> These and other results of the exhaustive analysis of the early 1980's called into question for which generation earnings sharing was designed.

By 1984, enough questions had been raised about earnings sharing that its advocates were struggling hard to keep the concept remaining afloat in the political mainstream. In January of 1985, the Social Security Administration issued a Congressionally mandated report on the distributional effects, costs and administrative issues that would be encountered in implementing specific earnings sharing plans.<sup>22</sup> The report dealt exhaustively with the distribution of winners and losers and ways to safeguard the losers. If any single document were to be cited as most heavily influencing (figuratively and literally—the report was 631 pages long and weighed about 4 pounds) the demise of earnings sharing, it would be this Social Security Administration report. Since it was issued, not a single Congressional hearing has been held to promote earnings sharing. In 1984, Presidential candidates lined up to endorse the concept; in 1988, the concept has not been mentioned.

### Conclusions

At this international conference of Social Security researchers and policy analysts, it seems appropriate to draw some lessons that may be applied to other major social policy questions.

One lesson is that research into the nature of underlying socioeconomic

trends can provide information about when and in what ways existing social programs might change to respond to changed needs. In this case, research into past and future changes in female labor-force participation documented that traditional roles of women no longer prevailed.

A second lesson is that policy analysts, equipped with research data and simulation models, can specify and describe potential winners and losers under various policy options. They can help decisionmakers narrow their range of acceptable options based on some knowledge of distributional effects and policy principles associated with each option.

Third, comprehensive reform may inadvertently threaten principles embodied in the present system, principles that the body politic may not yet be ready to abandon.

Perhaps the most important lesson for researchers and policy analysts to learn from the way the United States looked at the treatment of women under Social Security over the last 18 to 20 years is that comprehensive reforms of major social programs usually cost more than policymakers are willing to pay. Once a social program exists, part of the assessment of the desirability of change is how many people would receive less under the new provisions than under current law and how expensive it would be to prevent this from happening. In the budget and political environment of the 1980's, the amount of money required to be sure that particular groups of beneficiaries were not disadvantaged made comprehensive reform through earnings sharing unappealing. In the United States, comprehensive welfare reform has several times fallen victim to the seemingly intractable problem of an unwillingness to spend sums associated with protecting the benefits of current recipients.

In this budget and political climate, and perhaps in most climates, incremental or small changes may be the only way to make changes in major existing social programs.

### Notes

<sup>1</sup> James P. Smith and Michael P. Ward, *Women's Wages and Work in the Twentieth Century* (Santa Monica, Ca.: Rand Corp., 1984), p.4.

<sup>2</sup>*Ibid.*

<sup>3</sup>*Ibid.*, pp. 4 and 6.

<sup>4</sup>*Ibid.*, p. 5.

<sup>5</sup>*Ibid.*, p. 8.

<sup>6</sup>*Ibid.*, p. 10.

<sup>7</sup>President's Commission on the Status of Women, *Report of the Task Force on Social Insurance and Taxes* (Washington, D.C., 1963), pp. 36 and 37.

<sup>8</sup>*Ibid.*, p. 37.

<sup>9</sup> Citizens' Advisory Council on the Status of Women, *Report of the Task Force on Social Insurance and Taxes* (Washington, D.C., 1968), p. 72.

<sup>10</sup>*Ibid.*, p. 76.

<sup>11</sup>*Ibid.*, p. 73.

<sup>12</sup> U.S. Department of State, National Commission on the observance of International Women's Year, *To Form a More Perfect Union* (Washington, D.C., 1977), p. 18.

<sup>13</sup> U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the U.S., 1980 and 1988* (Washington, D.C.: U.S. Government Printing Office, 1980 and 1987) 1959 data, 1980 Abstract, Table 776; 1986 data, 1988 Abstract, Table 716.

<sup>14</sup> Social Security 1979 Advisory Council, *Social Security Financing and Benefits: Report of the 1979 Advisory Council* (Washington, D.C., 1982), p. 83.

<sup>15</sup> Unpublished SSA data.

<sup>16</sup> U.S. Department of State, National Women's Conference, *Proposed National Plan of Action* (Washington, D.C., 1977), p. 18.

<sup>17</sup> U.S. Department of Health, Education, and Welfare, *Social Security and the Changing Roles of Men and Women* (Washington, D.C., 1979).

<sup>18</sup> *Report of the 1979 Advisory Council*, p. 345.

<sup>19</sup> *Report of the 1979 Advisory Council*, pp. 102 and 103.

<sup>20</sup>U.S. Department of Health and Human Services, *Report on Earnings Sharing Implementation Study* (Washington, D.C., 1985) p. 53.

<sup>21</sup>The poverty line for an aged individual amounted to \$348 per month in 1986. The average monthly benefit of widows newly awarded benefits in 1986 was \$472. U.S. Department of Health and Human Services, Social Security Administration, *Social Security Bulletin; Annual Statistical Supplement, 1987* (Washington, D.C., 1987), Table 66.

<sup>22</sup>*Report on Earnings Sharing.*

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