Widows, Poverty, and Social Security Policy Options

by Christina Smith FitzPatrick and Joan Entmacher

Summary

Older Americans are far less likely to be poor now than was the case 30 years ago. Yet elderly, nonmarried women, including widows, remain at high risk of living in poverty. About 60 percent of elderly poor women are widows. Raising the Social Security survivor benefit is one way to increase the economic security of many of them. This *Brief* examines four options for improving Social Security survivor benefits, identifying who would be affected by each proposal and the relative size of the benefit changes. Empirical research will be needed to assess the impact these proposals would have on poverty rates and other indicators of economic security.

The current Social Security debate has focused on how to achieve long-term solvency — that is, how to balance the system's revenue and expenses over the long term. Social Security actuaries currently estimate that the system faces a deficit of 1.89 percent of taxable payroll over the next 75 years.[1] The debate about potential changes in Social Security benefits and taxes has also included discussions of targeted improvements in benefits. Improving Social Security survivor benefits is one way to help a large and economically vulnerable group: elderly widows.

Poverty Among Elderly Widows

Poverty rates among the elderly declined sharply over the last 30 years, falling from 29 percent in 1966 to 11 percent in 1998.[2] Yet economic insecurity is a reality for certain subgroups of the elderly population, especially nonmarried individuals — those who are widowed, divorced, or never-married — and women.

The nonmarried elderly are much more likely to be poor than are those who are married. While just 5 percent of the elderly who are married were poor in 1998, 17 percent of the nonmarried elderly were living in poverty. The problem is more significant for the black and Hispanic

nonmarried elderly: about 30 percent were poor in 1998. Seven in ten elderly poor people were either widowed, divorced, or never-married in 1998.

Poverty among the elderly is disproportionately a women's problem. Almost 70 percent of the poor elderly are women. Since in 1998 six in ten poor elderly women were widows, ameliorating the financial situation of elderly survivors of married couples could improve the situation of a large fraction of the elderly and have an important impact on reducing poverty.

Poverty Remains a Problem in the Future

In recent years, more women have entered the labor force, and the gap between men's and women's earnings has narrowed — two factors which could improve the financial circumstances of elderly women in the future. However, projections made using a model developed by the Social Security Administration predict that despite these promising trends, the same fraction of elderly women receiving Social Security benefits will be poor in 2020 as was the case in 1991.[3] Elderly widows will continue to have a substantially higher poverty rate than married elderly women (15 percent vs. 3 percent). In the future, a larger proportion of women will enter retirement never having married (or hav-

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ing been married only a short time[4]) and as a result will be ineligible for Social Security survivor benefits. However, 75 percent of women receiving Social Security benefits in 2020 will be either married or widowed and therefore potentially eligible for survivor benefits.

Social Security Benefits for Retirees and Survivors

When at least one spouse is eligible for benefits as a worker, both members of a married couple receive a Social Security retirement benefit: either as a worker, with benefits based on his or her own earnings record; or as a spouse, with benefits based on the earnings record of the other, higher-earning spouse. The spousal benefit is 50 percent of the worker's benefit. In the case of a two-earner couple, the husband and wife may both receive benefits as workers, or one may receive a spouse benefit. When one member of the couple dies — either the husband or the wife — the survivor is entitled to a survivor's benefit that is 100 percent of the deceased spouse's benefit if that is higher than the survivor's own, earnings-based benefit (see Table 1).[5]

Each member of the couple is paid the higher of the two benefits for which they are eligible. An individual who is eligible for both a retired worker benefit and a higher spousal or survivor benefit is "dually entitled" (though is paid only the higher amount). A retired worker whose own benefit is greater than the spousal benefit or the survivor benefit is said to receive a "worker-only" benefit.

Causes of Poverty Among Widows

The high poverty rates among elderly women result from a number of factors. Women generally earn less during their work lives due to lower wages, occupational segregation and more time out of the paid labor force for family care-giving responsibilities. They therefore usually qualify for lower Social Security benefits on their own earnings record than men. In addition, they are less likely to have participated in employer pension programs and therefore receive smaller pension incomes. Finally, women have a longer life expectancy than men and therefore a higher likelihood of outliving their assets or having their savings and non-Social Security income eroded by inflation.

Income Drops at the Husband's Death

Widows face another hazard: a significant drop in standard of living when their husband dies. One study, by researchers Karen Holden and Cathleen Zick, compared a group of women who became widowed during the course of the study to women who remained married.[6] Those who became widowed experienced a sharp drop in income after widowhood, from a loss of earnings if their husbands were still working, and from a decline in pension and Social Security benefits if their husbands had retired. Their income fell 20 percent even after adjusting for their smaller household size, while the incomes of married couples remained steady. The drop in standard of living plunged many of these widows into poverty: their poverty rate increased fivefold when their husbands died, rising from 4 percent while the husbands were still alive to 21 percent in widowhood.

Table 1. Benefits for Retired Workers, Spouses, and Widow(er)s

Type of Recipient	Social Security Benefit	Average Monthly Benefit, 1999*
Retired worker	*Receives higher of:* ■ own benefit as a worker, or ■ 50 percent of spouse's benefit (i.e., "dually- entitled")**	$804
Spouse ineligible for retired worker benefit (i.e., did not work sufficiently in covered employment)	*Receives:* ■ 50 percent of spouse's benefit**	$412
Widow(er)	*Receives higher of:* ■ deceased spouse's retired-worker benefit, or ■ own benefit as a worker	$775

* Social Security Administration, *Annual Statistical Supplement, 2000*, Table 5.A1.

** When both have attained Normal Retirement Age. See endnote 5.

The Drop in Social Security at Widowhood

The amount of the Social Security survivor benefit ranges from 50 to 67 percent of the combined benefits received by the couple. The proportion of the couple's benefits received by the survivor depends on the relative earnings of the husband and wife. The closer their earnings levels, the larger the drop in Social Security income at widowhood. This decline in benefits has a significant impact on total income since on average the elderly receive over half their income from Social Security. Close to 50 percent of the poorest elderly rely on Social Security for all their income.[7]

Table 2 illustrates this with several examples. In Couple A, the wife received 50 percent of her husband's benefit while he was alive (her retired worker benefit, if any, was less than 50 percent of her husband's benefit). Together the couple received $1,500. When one member of this couple dies, the survivor receives the higher of the two benefits: $1,000. The survivor benefit in this case equals two-thirds (67 percent) of the couple's combined benefits (1,000 ÷ 1,500). In Couple B, the wife had lower earnings than the husband, but her earnings were high enough that they produced a benefit on her own record larger than the 50 percent spousal benefit. The survivor of this couple also receives $1,000, which is 57 percent of what the couple received (1,000 ÷ 1,750). In Couple C, the husband and wife had equal earnings histories and benefits. The survivor of this couple would also receive $1,000, but this is only 50 percent of the couple's combined benefits (1,000 ÷ 2,000).

As these examples show, the survivors of two-earner couples in which the wife qualified for a worker-only retirement benefit (i.e., her own Social Security benefit was greater than one-half her husband's benefit) experience a larger percentage decline in Social Security benefits than the survivors of couples in which one spouse had significantly higher lifetime earnings than the other. The percentage of women who will experience large declines in Social Security benefits at widowhood is expected to

increase. Among women reaching age 65 during the period 1996-2000, about 40 percent qualified for a worker-only benefit. The Social Security Administration has projected that for women reaching age 65 during the period 2021-2025, almost 70 percent will qualify for a worker-only benefit, and thus will experience a large decline in Social Security benefits upon widowhood.

Some decrease in total Social Security benefits at widowhood is reasonable, since the amount of money necessary to maintain a given living standard is lower for one person than for two. 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. However, the Social Security survivor benefit equals only between 50 and 67 percent of the couple's benefit. Given the significant declines in other, private sources of income at widowhood and the large percentage of income that comes from Social Security for most elderly people, Social Security can play a significant role in keeping elderly women out of poverty.

Proposals to Improve Survivor Benefits

The economic security of widows, the largest group of poor, elderly women, could be improved by adjusting the Social Security survivor benefit to allow survivors to keep a larger fraction of the couple's benefit. Several options have been suggested for structuring this benefit improvement. These options are summarized in Table 3.

Each of these proposals would increase survivor benefits for some widows and widowers, helping to mitigate the dramatic loss in income which currently occurs upon the death of a spouse and to reduce poverty and hardship. The proposals differ in terms of who would benefit and how large the benefit increases would be. In addition, Option 4 is unique in that it includes a reduction in

Table 2: Current Structure of the Social Security Survivor Benefit							
	Husband's benefit		Wife's benefit		Couple's benefit	Survivor benefit	Survivor benefit as percent of couple's benefit
Couple A	$1,000	+	$500	=	$1,500	$1,000	67%
Couple B	$1,000	+	$750	=	$1,750	$1,000	57%
Couple C	$1,000	+	$1,000	=	$2,000	$1,000	50%

Note: Examples assume benefits are first claimed at Normal Retirement Age. See endnote 5.

Table 3. Policy Options for Improving Social Security Survivor Benefits

Option 1

Survivor receives 67 percent of the couple's combined Social Security benefits

Example: *Husband receives $800, wife receives $500, for total of $1,300 New survivor benefit = $867 ($1,300 x 2/3= $867)*

Option 2

Survivor receives 75 percent of the couple's combined Social Security benefits

Example: *Husband receives $800, wife receives $500, for total of $1,300 New survivor benefit = $975 ($1,300 x .75 = $975)*

Option 3

Survivor receives higher of 75 percent of the couple's combined retired-worker benefits or current-law survivor benefit

Example: *Husband receives $800, dually-entitled wife receives $400, of which $300 is a retired-worker benefit New survivor benefit = $825 (($800 + $300) x .75 = $825)*

Option 4

Spousal benefit is reduced from 50 percent to 33 percent of worker's benefit; Survivor receives 75 percent of the couple's combined Social Security benefits

Example: *Husband receives $800, wife receives new spousal benefit of $267 New survivor benefit = $800 (($800 + $267) x .75 = $800)*

Note: Illustrations assume benefits claimed at Normal Retirement Age. See endnote 5.

benefits compared to current law for couples in which one spouse now receives the 50 percent spousal benefit. Under any of the proposals, a cap could be placed on potential increases to reduce the costs of the proposals and target increases to lower earners (see "Cost Considerations" section below).

Table 4 outlines how these proposals change benefits for different types of couples. The table presents three hypothetical couples: one in which only one member of the couple qualifies for retired-worker benefits ("one-earner couple"), one in which both members of the couple worked, but the retired-worker benefit of the lower-earning spouse is still lower than the 50 percent spousal benefit ("two-earner couple, spouse dually-entitled"), and one in which both the husband and wife receive only retired-worker benefits ("two-earner couple").

Since the inception of Social Security as a contributory social insurance program, policy makers have attempted to balance the competing goals of benefit adequacy (providing protection against hardship) and equity (maintaining a reasonable relationship between contributions and benefits).[8] For example, Social Security's progressive benefit structure provides proportionately higher benefits for low earners than for high earners; however, benefits also increase with earnings. The progressive benefit structure promotes the goal of adequate income for beneficiaries, while retaining the connection between earnings and benefits helps to maintain public support for the program. Any proposed program changes also must be examined in light of these competing principles of adequacy and equity.

Improving the Economic Security of Survivors

No estimates are available on the extent to which each of these proposals would alleviate poverty among the survivors of elderly married couples,[9] and more investigation is needed on correlations between economic security and the relative earnings levels of husbands and wives. We can therefore only describe what the relative impact of each of these proposals would be, considering both the number of people who would receive a benefit increase and the size of the increase. Of the proposals considered, Option 1 would result in increases for the fewest people, and those who receive benefit improvements would receive smaller increases than under the other proposals. Only the survivors of couples in which both spouses received a worker-only benefit would receive an increase. Option 2 would provide the largest increases for the largest number of people. The survivors of all couples would receive an increase. Option 3 would produce substantial increases for some two-earner couples, but little or no increases for others. The effect of Option 4 on survivor benefits would be identical to that of Option 3. However, under Option 4, some couples would receive a net decrease in benefits: their benefits while married would be lower than they would be under current law, and the survivor benefit would be no higher than it is under current law. This proposal could therefore result in an increase in poverty among some married couples, and among divorced spouses receiving the reduced spousal benefit.[10]

Reducing Disparities Between Couples with Similar Combined Earnings

While many dimensions of equity exist (e.g., among workers with different earnings records and between single workers and those who marry), one equity concern

Table 4. Impact of Proposals to Improve Survivor Benefits – Change in Benefits Compared to Current Law

	Option 1 Spousal benefit = 50% Survivor benefit = 67% of couple's benefits		Option 2 Spousal benefit = 50% Survivor benefit = 75% of couple's benefits	
	couple	*survivor*	*couple*	*survivor*
One-earner couple	no change	no change	no change	**increase**
Two-earner couple (spouse dually-entitled)	no change	no change	no change	**increase**
Two-earner couple	no change	**increase**	no change	**increase**

	Option 3 Spousal benefit = 50% Survivor benefit = 75% of couple's worker benefits[*]		Option 4 Spousal benefit = 33% Survivor benefit = 75% of couple's benefits	
	couple	*survivor*	*couple*	*survivor*
One-earner couple	no change	no change	**decrease**	no change
Two-earner couple (spouse dually-entitled)	no change	no change or **increase****	**decrease**	no change or **increase****
Two-earner couple	no change	**increase**	no change	**increase**

[*] Under this option, survivors would receive the higher of their current-law benefit or their benefit as calculated under the proposal. "Worker benefits" refer to the benefits that each member of the couple was entitled to based on his or her own earnings record. It does not include the 50 percent spousal benefit.

** If the lower-earning spouse's benefit were less than or equal to 33 percent of the higher-earning spouse's benefit, then there would be no change in the survivor benefit. Otherwise, the survivor of this couple would receive more under this proposal than under current law.

Note: Illustrations assume benefits claimed at Normal Retirement Age. See endnote 5.

related to the structure of the survivor benefit has received particular attention: the treatment of one-earner and two-earner couples. Table 5 presents three couples with similar combined lifetime earnings, but with a different distribution of earnings between the husband and wife. Under current law, the survivors of these couples are treated quite differently. The survivor of Couple D, the one-earner couple, receives a monthly benefit of $613, while the survivor of Couple F, the two-earner couple in which the husband and wife had identical earnings, receives $450.

If any of the survivor benefit proposals were adopted, the benefits received by the survivors of these couples would be more nearly equal than under current law, although differences would remain. See Table 6. If survivors received either 67 percent or 75 percent of the couple's combined benefits (Option 1 or 2) the survivor of the one-earner couple would continue to receive the largest benefit. Under Options 3 and 4, the survivor of the two-equal-earner couple would receive the largest benefit.

Cost Considerations

These proposals could be modified to reduce their costs and target increases to those with lower earnings by capping at a specific level the amount that anyone could receive from the proposed alternative calculation of the survivor benefit. For example, the cap could be set at the benefit that someone with lifetime earnings at the maximum taxable earnings level would receive. In 1998, that was $1,405 per month for a person first claiming benefits at age 65. In the case of Option 1, such a cap would mean that survivors would receive 67 percent of the couple's benefit, but the amount could not exceed $1,405. (However, no one would be worse off as a result of this proposal. Those with current-law benefits above the cap would continue to receive their current-law benefits.)

Cost estimates have been made for some of these proposals. The Office of the Chief Actuary of the Social Security Administration estimated that Option 1, capped at the maximum earner's benefit amount, would cost

Table 5. Current Law Benefits for Survivors of Couples with Equal Combined Earnings

	Husband's monthly earnings		Wife's monthly earnings		Combined monthly earnings	Combined couple's benefit*	Survivor's monthly benefit - current law
Couple D	$1,000	+	$0	=	$1,000	$919	$613
Couple E	$750	+	$250	=	$1,000	$800	$533
Couple F	$500	+	$500	=	$1,000	$900	$450

* The benefit received by each member of the couple was calculated by applying Social Security's Primary Insurance Amount formula to each person's average monthly earnings.

Note: Illustrations assume benefits claimed at Normal Retirement Age. See endnote 5.

0.12 percent of taxable payroll over 75 years.[11] Option 2 with the same cap on benefits would cost 0.46 percent of taxable payroll over 75 years. The cost of Option 3 has not been estimated. The cost of this option would fall between the costs of Options 1 and 2 since it offers higher benefits to more widowed people than Option 1 and to fewer widowed people than Option 2. Option 4 is estimated to cost 0.32 percent of taxable payroll.[12]

Conclusion

Poverty among the elderly is disproportionately a women's problem: 70 percent of the poor elderly are women, although women represent only 58 percent of the total elderly population. Improving the Social Security survivor benefit can help to improve the financial situation of widows, who compose the majority of poor elderly women. The heavy reliance of most elderly Americans on Social Security means that benefit improvements can have a widespread, significant impact on living standards.

As the debate proceeds about how to ensure the solvency of the system and what benefit improvements to include in the reformed system, the costs and benefits of these proposals will need to be weighed against other important goals and constraints. Empirical research is needed to assess the impact on the economic security of the elderly, and to help policymakers strike the wisest balance between the competing goals of equity and adequacy.

A comprehensive approach to addressing the significant poverty rates among various sub-groups of the elderly population will require more than an adjustment to the survivor benefit. First, people who have never married or whose marriage did not last at least 10 years will not benefit from a proposal that addresses only survivors.

Table 6. Effect of Proposals on Survivor Benefits for Couples with Equal Combined Earnings

	Husband's monthly benefit	Wife's monthly benefits (worker/spousal)	Combined benefits under current law	Survivor's monthly benefit*				
				Current law	Option 1	Option 2	Option 3	Option 4
Couple D	$613	$0 / $306**	$919**	$613	$613	$690	$613	$613
Couple E	$533	$225 / $42	$800	$533	$533	$600	$568	$568
Couple F	$450	$450 / $0	$900	$450	$600	$675	$675	$675

* Current law: Survivor receives higher earner's worker benefit.
   Option 1: Survivor receives two-thirds of couple's combined benefits.
   Option 2: Survivor receives 75% of couple's combined benefits.
   Option 3: Survivor receives 75% of couple's combined worker benefits.
   Option 4: Survivor receives 75% of couple's combined benefits, spousal benefit reduced to 33% of higher earner's benefit.

**Under Option 4, the spousal benefit for Couple D would equal $204, resulting in a combined benefit of $817.

Note: Illustrations assume benefits claimed at Normal Retirement Age. See endnote 5.

Other reforms will be needed to alleviate poverty among those not eligible for survivor benefits. Second, the effects of an increase in Social Security survivor benefits on means-tested programs such as Supplemental Security Income (SSI) and Medicaid should be carefully considered to ensure that Medicaid coverage is protected and income improved for poor SSI recipients.

Endnotes

1. "Percent of taxable payroll" is a way of measuring long-term costs. A 1.89 percent long-term cost deficit is equivalent to a payroll tax increase of 0.945 percent for employees and employers, each, or a benefit cut of equivalent size. For example, to close the deficit solely through a payroll tax increase, the Social Security tax would rise from 6.20 percent to 7.145 percent, each, for employees and employers.

2. The poverty figures referred to in this paper are based on 1998 family income. The statistics cited in this section are from the authors' calculations based on the March 1999 Current Population Survey.

3. Smeeding, Timothy M., Carroll L. Estes and Lou Glasse. 1999. *Social Security Reform and Older Women: Improving the System*. Washington, DC: The Gerontological Society of America.

4. Social Security benefits based on a former spouse's earnings record are available only to divorced persons whose marriage lasted at least 10 years.

5. The relationship between the worker, spousal and survivor benefits described in this paper apply to cases where the worker and spouse were Normal Retirement Age (NRA) at the time they claim benefits. (NRA is age 65 and 2 months for persons reaching age 62 in 2000, and is scheduled to rise gradually to age 67 for persons reaching age 62 in 2022 and later.) Benefits are reduced if claimed before NRA; they are increased for workers (and their survivors) who first claimed benefits after NRA.

6. Holden, Karen C. and Cathleen Zick. Forthcoming. "Distributional Changes in Income and Wealth Upon Widowhood: Implications for Private Insurance and Public Policy," in *Retirement Needs Framework*. Schaumburg, Ill.: Society of Actuaries, pp. 69-79. The study compared the pre- and post-widowhood income-to-needs ratio of women whose husbands died during a three-year period ("eventual widows") to the income-to-needs ratio of couples who remained married during the entire observation period. (The income-to-needs ratio is a household's income divided by the poverty threshold for a household of that size.) They found that while the couples' income-to-needs ratio remained steady over the time period, the income-to-needs ratio of eventual widows dropped sharply, from 3.4 pre-widowhood to 2.7 post-widowhood.

7. Among those aged 65 or older in the bottom quintile of total income, 48 percent receive all their income from Social Security. Social Security Administration. 2000. *Income of the Population 55 or Older*. Washington, DC: U.S. Government Printing Office.

8. Schieber, Sylvester J. 1982. *Social Security: Perspectives on Preserving the System*. Washington, D.C.: Employee Benefit Research Institute, pp. 7-32.

9. Iams and Sandell estimate the effect on the poverty rates of elderly married couples and survivors of a proposal that is similar to Option 4, with the additional change of reducing the basic benefit formula used to calculate Social Security benefits by 1.5 percent. They estimate that under this proposal the poverty rate of elderly widows would decrease from 17.9 percent under current law to 15.1 percent under the proposal. The poverty rate among married elderly women is estimated to increase from 4.2 percent under current law to 4.7 percent under the proposal. Iams, Howard M. and Steven H. Sandell. 1998. "Cost-Neutral Policies to Increase Social Security Benefits for Widows: A Simulation for 1992." *Social Security Bulletin*, Vol. 61, No. 1, pp. 34-43.

10. Those who were married for at least 10 years and then divorce receive the 50 percent spousal benefit based on their former spouse's earnings record if this benefit is larger than the benefit they would receive based on their own earnings record. The 50 percent spousal benefit was intended to supplement the retired worker's benefit. Together, the husband and wife would share 150 percent of the retired worker's benefit. Divorced spouses trying to live on the 50 percent spousal benefit alone experience higher poverty rates than married couples. Reducing this benefit to 33 percent would further increase their poverty.

11. See endnote 1 for an explanation of the term, "percent of taxable payroll."

12. *Report of the 1994-1996 Advisory Council on Social Security*. Volume 1: Findings and Recommendations, page 236. As with Options 1 and 2, the estimate assumes benefits are capped at the maximum earner's benefit amount. However, because this estimate was made in 1994, while the estimates for Options 1 and 2 were made in 1999, slightly different assumptions and methods were used in developing the estimates, and therefore they are not wholly consistent. Finally, the estimate assumes a 16-year phase-in period, to allow for adjustment to the reduction in the spousal benefit, while Options 1 and 2 are assumed to be immediately implemented.

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