Crediting Care in Social Security: A Proposal for an Income Tested Care Supplement

Pamela Herd

Assistant Professor of Public Affairs and Sociology

University of Wisconsin, Madison

La Follette School of Public Affairs

1180 Observatory Drive

Madison, WI 53706

pherd@lafollette.wisc.edu

I. The Problem

A key challenge facing Social Security in the twenty-first century is the revolution in families and the workplace. Its "breadwinner" benefit structure best offsets income risks faced by both those who either have consistent lifetime work histories, through contributory worker benefits, or individuals who get married, stay married, and do no paid work, through noncontributory spousal and widow benefits (Burkhauser and Holden 1982; Harrington Meyer 1996; Herd 2002; Herd 2005a; Herd 2005b; Herd 2006; Holden 1979; Smeeding, Estes, and Glasse 1999; Steuerle, Spiro, and Carasso 1999). Most women, however, fit neither model. While they work more than their mothers, their child-rearing responsibilities mean their work histories still do not match their fathers'. Only 55 percent of mothers who had a child in the last year were in the labor force (Dye 2005). And as figure 1 demonstrates, though men do more of the housework and child care than previous generations, they still do much less than do women. Moreover, women have a lesser chance of getting and staying married compared to their parents. From 1970 to 2000 the percentage of women married dropped from 60 percent to 52 percent, the percentage of women divorced rose from 6 percent to 13 percent, and the percentage of families headed by single mothers rose from 12 percent to 26 percent (Census 2000). The result is that younger cohorts of women, like older women today, will be at a greater poverty risk than men (Smeeding, Estes, and Glasse 1999).

Of particular concern are subgroups of women, such as unmarried black women, who face high poverty risks and also comprise a growing proportion of the elderly population. For example, while less than 2 percent of white married women age 65 and older are poor, nearly 40 percent of black elderly women living alone are below the poverty level (Census 2004). Black elderly women living alone will comprise a greater share of the aged population in future cohorts because marriage rates have declined most substantially among black women. For example, in 1970, among women aged 35-44, black women were 87 percent as likely as white women to be married. But by 2000 black women were only 58 percent as likely as white women to be married.

The most vulnerable beneficiaries in the coming decades will likely be single mothers, whom are disproportionately African American, and whom are a growing percentage of households. Poverty in early and midlife negatively affects savings, pensions, and Social Security benefits in old age. Single mothers are 55 percent more likely to be poor in old age compared to married mothers (Johnson and Faverault 2004). Households headed by single mothers have rose from 10 percent of households in 1970 to 25 percent of households by 2005.

But Social Security, in its current form, is not adequately designed to protect many of these increasingly disadvantaged women. The Social Security worker benefit cannot adequately protect many women because their labor force and earnings, like their mothers, are negatively impacted by their caregiving. Indeed, the gender wage gap, around 76 cents on the dollar, is parallel to the gender Social Security benefit gap, which is also around 76 cents on the dollar (Herd 2005). Figure 2 demonstrates the fact that while growing percentages of women qualify for worker benefits, they are still just as likely as their mothers to draw on their spousal and widow benefits because their earnings are generally much lower than their husband's earnings. A spouse can receive a benefit worth 50 percent of her husband's worker benefit and as a survivor she receives a benefit worth 100 percent of her deceased husband's worker benefit. Dually entitled means that while women qualify for spousal/ widow benefits and worker benefits, they draw on the spousal and widow benefits because they are higher than their worker benefits (Herd 2005).

Spousal and survivor benefits, however, will not protect a growing number of women because of declining marriage rates. In particular, the retreat from marriage has been concentrated among black women and women with low educational attainment. The percentage of women born between 1960 and 1964 who will never marry is 5.4 percent for college graduates and about 12 percent for non-college graduates. The race differences are even more striking. While around 7 percent of white women will never marry, 36 percent of black women in this cohort will never marry (Goldstein and Kenney 2001). The result is that among women born in the 1960s, the proportion of white and Hispanic women that reach old age qualified for spouse or widow benefits will hover just above 80 percent compared to just 50 percent for black women (Harrington Meyer et al. 2006).

Even among those who qualify for spousal and survivor benefits, the benefits are less progressive than the worker benefit and reduce the overall progressiveness of the program (Harrington Meyer 1996; Herd 2002). With the worker benefit, the lower an individual's average lifetime earnings, the higher the percentage of earnings the benefit replaces. Someone earning $6,000 a month across his life would have a benefit that replaces 31 percent of this level

($1,866 a month). The added spousal benefit makes this rise to 47 percent. Contrastingly, a couple who each earned an average of $1000 monthly would have benefits that replace 68 percent of prior earnings (for a household total of $1258). While still progressive, this latter couple sees no benefit from spousal benefits despite their greater labor force participation and lower incomes.

A final problem with spousal and survivor benefits is that they penalize dual earner couples who comprise the majority of families. In 2007, nearly two-thirds of couples with children under the age of 18 were both employed compared to less than one-third in 1950. The problem for dual earner couples can be illustrated in the following example. In one couple, each spouse earns $30,000 a year for a combined average annual lifetime income of $60,000. The other couple is a one earner household with a total income of $60,000. The woman in the one earner household would receive $1200 benefit widow benefit. The woman in the two earner couple, as a widow, would receive only an $800 benefit. Her widow benefit is $800 and her worker benefit is also $800, but she receives just one of the two benefits.

As a result of the myriad of problems associated with spousal and survivor benefits, many have argued that these benefits should reward beneficiaries for raising children, instead of simply rewarding them for getting married. Arguably, however, there would be a range of different ways to correct the problems with spousal benefits. Why this reform in particular? Why should Social Security reward women for raising children? First, as noted, there are reasons related to adequacy. Single mothers, black women, and women with low educational attainment, who will be among the most vulnerable beneficiaries, are largely unable to qualify for spousal and survivor benefits. Second, even among those who do qualify, wealthier beneficiaries fare better from them compared to poorer beneficiaries.

In addition to adequacy rationales, there are equity rationales for rewarding parenting through Social Security. In short, while everyone benefits from the work involved with raising children, the costs are largely absorbed privately by women (Folbre 1994). And the costs are high. At any point in time, about 45 percent of those mothers who had a child in the last year are not actively in the workplace (US Census Bureau 2005). And while the gender wage gap has shrunk to 90 cents on the dollar for young women without children, the wage gap between mothers and nonmothers rose from 10 cents in 1980 to 18 cents in 1991 (Waldfogel 1998). Some of this wage gap is due to the effects of reduced labor force participation, but there is also evidence of discrimination against mothers. An audit study done by sociologists at Cornell found that employers were over two times more likely to call back non-mothers compared to mothers for job interviews. The only distinction on the resumes between the mothers and non-mothers was the indication of parental status. Further, these same researchers also conducted an experiment with Cornell undergraduates. They presented the students with resumes and descriptions of job candidates and then asked them to recommend a salary level. Once again, the only difference on the resumes was parental status. Women without children were recommended to have salaries $11,000 higher than women with children (Correll et al. 2007).

What, besides the maintenance of the human race, are the benefits associated with raising children for society at large? Public programs that support the elderly provide excellent examples. Individuals with children are far less likely to rely on public programs like Medicaid to provide long term care services. Social Security provides the most striking example. Increases in the number of children born have a profound impact on Social Security financing because the system is prefunded---that is current workers pay for current retirees. Consequently, it is critical to maintain a relatively high fertility rate to keep a high ratio of workers to retirees. Estimates produced by the Social Security Administra0tion project that in 2083, if the fertility rate was 2.3 instead of 1.7, the projected deficit for Social Security would be two-thirds smaller. Countries like Japan and Italy, which have some of the lowest fertility rates in the industrialized world, have begun to develop policies to provide financial support to encourage women to have children. The costs associated with having children are so high in some places that, in short, women have gone on strike from having children.

II. A New Policy Approach

II.A. Current Policy

Social Security eligibility is based on work or marriage. Eligibility for the worker benefit requires 40 quarters (approximately 10 years) of earnings. The size of the worker benefit is then based on an individual's highest 35 years of earnings. Again, this benefit is progressive with the benefit for lower earners replacing a higher percentage of lifetime wages compared to higher earners. Beneficiaries can start receiving the full benefit at age 67 or take a reduced benefit starting at age 62.

But while most people think that Social Security benefits are based only on work, over 40 percent of new beneficiaries receive benefits not as workers, but as the wives and widows of workers. The eligibility criterion for spousal and widow benefits is marriage. A spouse receives a benefit that is 50 percent of her living husband's worker benefit. If he dies she receives the full benefit. If eligible for both the worker and the spouse benefit, she receives the higher of the two. While men are eligible for these benefits, around 98 percent of spousal and widow beneficiaries are women (Harrington Meyer 1996). Those who are divorced are also eligible for spousal and survivor benefits. But to qualify for these benefits they must have been married for a minimum of ten years. Social Security retirees, while able to qualify for Social Security retirement benefits through their marital status, do no receive credit through Social Security for raising children.

II.b. Proposed Policy: Income Tested Care Supplement

I am proposing an income-tested care supplement for Social Security retiree beneficiaries. To my knowledge, this is an entirely new proposal that has never been analyzed. It improves benefits for very vulnerable aged beneficiaries, like a strong minimum benefit, but links benefits to a societal contribution, raising children. In short, it balances the goals of adequacy (protecting the poor) and equity (matching contributions to benefits), both critical program goals. Specifically, I draw on the politically popular Earned Income Tax Credit (EITC) as a model for the benefit.

The EITC is an income subsidy for poor working-age adults with children.[1] The EITC links its benefits to both children and employment, it is not asset tested, and it is administered through the tax system. As earnings rise, the value of the EITC rises, and additionally is dependent on the number of children an individual has. But at a certain earnings level, the value of the EITC benefit is capped. For example, in 2006, the maximum benefit for a single person was $2747 for an individual with 1 child. Those with earnings between $11,500 and $14,500 were eligible for the maximum benefit. The maximum benefit brought these families to approximately 125 percent of the poverty level.

I am proposing a variant on the EITC for aged Social Security beneficiaries. The first part of the proposal is to eliminate spousal benefits. Married Social Security beneficiaries are currently

[1] There is a small benefit for those without children, but the benefit is really targeted at individuals with children.

eligible for a benefit that is based on 50 percent of their spouse's worker benefit. This spousal benefit would be eliminated.

The second part of the proposal is the creation of an income tested care supplement. Instead of the spousal benefit, retirees would be eligible for a supplement to their worker benefit if they had raised children. For those raising one child, the size of the supplement would be 75 percent of the retired caregiver's worker benefit and for 2 children the supplement would be 80 percent of the retired caregiver's worker benefit. For example, at age 67 an unmarried worker with lifetime annual earnings of $15,000 would receive a worker benefit valued at approximately $776. If this person had raised a child s/he would then be eligible for a maximum $582 monthly benefit supplement (75 percent of the original worker benefit). This total benefit, however, would be income tested. If the income tested care supplement pushed household income above 125 percent of the poverty line, the supplemental benefit would be reduced so that household income did not exceed the income cutoff. Thus, the income tested care supplement would be $259 for a total benefit of $1035 (125 percent of poverty for a single individual aged 65 and over in 2007). This benefit would be indexed to wages, like the worker benefit.

The benefit, and the income testing, would all be done through individuals' tax returns. In an eligible married couple (had children), both individuals are eligible, but the combined household benefit is income tested. Because just 7.5 percent of married couples over age 65 fall below the poverty level, this will not be a large issue. In the case where both parents are alive, but living apart, both are eligible for the credit, though the credit remains income tested.

Similar to the EITC, the value of the income tested care supplement rises as individual earnings rise. The advantage to this is that it tightens the link between benefits and earnings thereby encouraging employment. Of course the downside to this is that by emphasizing equity, there is some sacrifice to adequacy. About 10 percent of women in future cohorts (those retiring after 2020) will not benefit because they will not have 40 qualifying quarters of earnings to qualify for the worker benefit (Herd 2005a). To the extent that these women are more likely to be poor this is clearly problematic. And for those with very limited earnings' histories, the benefit will not likely bring them above the poverty line. Currently, about 11 percent of retired women workers becoming eligible in 2006 had benefits below $500 (SSA 2007). Those with benefits much below this level will not be brought up to the poverty line, though of course will still have a substantial increase in income.

It is important to note that beneficiaries would receive these credits regardless of when (or if) they had altered their employment due to their care work. Many care credit proposals only apply credits to certain years when children are young. For example, the GAO (2007), analyzed a care credit proposal that substituted in years of earnings with half of median wage for years when children were below the age of 5. There are two problems with this. One, it is administratively more complicated. Two, and more importantly, this ignores how children affect their parent's employment. Some parents reduce fewer working hours when children are young and instead reduce work hours when children are in their teens. Some feel that their children need them more during the adolescent period. There is evidence that among low-income mothers teenage children are negatively affected by their mother's employment. They performed poorly in school and were more likely to have behavioral problems (Gennetian et al. 2008).

The benefits would also be distributed to individuals regardless of whether or not they had obviously altered their employment. In fact, up to a certain level, the credit becomes more valuable the higher one's average earnings. The reality for many poor working parents is that they cannot afford to take time off to care for their children. In this way the income tested care supplement is similar to the EITC, which expects high levels of employment, but acknowledges that children are costly. From a theoretical vantage point, individuals make societal contributions by raising children (Herd 2005a). This contribution is the same whether or not parents reduce their employment. Social Security provides a striking example of this. The very financial health of the systems depends upon high fertility rates. Those who have children are, in essence, financing their own Social Security benefits. Those who do not have children are, in essence, relying on other peoples' children to fund their Social Security benefit in old age.

Similar to the EITC, the income tested care supplement would be distributed through the tax system. I will discuss an example of specifically how Social Security beneficiaries would apply for the income tested care supplement. Aged beneficiaries would need to file a tax return. To qualify for the credit, similar to the EITC, the beneficiary would need to provide the names and Social Security numbers for his/her children. The beneficiary would then sum the total household annual Social Security benefit and any additional income. The beneficiary would then reference a table that would list income cutoff levels, by household size, which corresponded to 125 percent of the poverty level for those aged 65 and older. If the combined Social Security annual benefit and other income exceeded this amount, s/he would not be eligible. If the combined income did not exceed the income cutoff, the individual/couple would be eligible.

Once beneficiaries prove eligibility based on having children and meeting the income cutoff, the second administrative component will be determining the actual size of the credit. If the respondent had one child, they would be instructed to multiply his/her annual Social Security benefit by .75. If s/he had two or more children the annual Social Security benefit should be multiplied by .80. If the sum of the care supplement, total Social Security income, and other income fell below the income cutoff, s/he would receive the full credit. If the sum exceeded the income cutoff, they would subtract the difference between their total income and income cutoff from the maximum care supplement value for the final credit value.

The following example illustrates how the credit would be determined. In 2008, Mary, a single women aged 67 with one child, has an annual Social Security benefit valued at $9,000 a year. She has no other income. Her annual income is thus $9,000. When checking the eligibility table, she finds her income falls below the income cutoff. Her next step then is to multiply $9,000 by .75 for a total maximum credit of $6,750. She then sums her income and maximum credit for a total of $15,750. She then again references the income cutoffs in the table. For a single person, the income cutoff is $12,430 (the income cutoff is based on 125 percent of the poverty level). She then subtracts $12,430 from $15,750, which is $3320. She then subtracts $3,320 from her maximum credit ($6,750) for a final credit of $3,430.

III. How Does the Income Tested Care Supplement Address the Problems with Social Security?

This policy proposal addresses key limitations of the current Social Security program. First and foremost, it protects some of the most economically vulnerable older Americans by increasing Social Security benefits for individuals who raised children and who were consequently left with limited economic resources in old age. Many of these people, largely women, are left unprotected by the current benefit structure because they did not get married, or stay married long enough, to benefit from spousal and survivor benefits. In short, these individuals had limited lifetime earnings because they raised children, but they do not qualify for spousal and survivor benefits, which are the only Social Security benefits not directly linked to labor force participation. This is particularly true for African American women, 50 percent of whom will not be eligible for spousal and survivor benefits, compared to 20 percent of white women. An income tested care supplement will far more effectively protect women who have been made vulnerable to poverty in old age as a consequence of their caregiving. To further clarify the effects of this proposal I will provide some examples to demonstrate who is benefiting from this proposal and by how much. Table 1 provides a summary of the four cases I employ to demonstrate the effects of this policy.

Jane is waitress who is a single mother of two children. Her average monthly lifetime earnings are $833. At age 67 Jane's Social Security benefit would be $677. The income tested care supplement would raise Jane's benefit to $1035 a month, pushing her to 125 percent of the poverty line.

Now compare her benefit to June, a woman married to a lawyer whose husband's average lifetime monthly earnings were over $12,000. June has had only short temporary spells of employment. They have no children. Her spousal benefit would be $1092.50. Her survivor benefit would be $2185. Under the new system, June would receive no Social Security spousal benefit, though her husband would receive a $2185 benefit. June would still receive a $2185 survivor benefit, however, when he died.

What about a low earning married mother? Jill has worked intermittently throughout her working age years while raising two children. Her average monthly earnings are $667. Her husband, a car repairman, has average monthly lifetime earnings of $1240. Under the current system, she is eligible for both a worker benefit ($600) and a spousal benefit ($406), but she would take the worker benefit because it is the higher of the two. Under the new system, the couple's total benefit is $1418, which is the same as under the current system because their total income is above the income cutoff ($1305 for a married couple). When Jack dies, however, Jill's benefit will be $1035 a month, based on her worker benefit ($600) and care supplement ($435). Under the old system her benefit would have been $809 (a survivor benefit based on Jack's earnings).

The final example is Linda and Jeff, a married couple with two children and the same average monthly lifetime earnings ($1917) as Jill and Jack, but Linda had not been employed. In short, Jack has average monthly lifetime earnings of $1917 while Jill has none. Under the current system, Jeff would be eligible for a $1026 monthly benefit. Linda would be eligible for a $513 spousal benefit. Under the new system, Linda would not be eligible for the spousal benefit, but the couple would receive a care supplement, based on his worker benefit, valued at $279 a month, which would bring their total income above 125 percent of the poverty line. If Jeff died, like under the current system, Linda would still be eligible for a $1026 survivor benefit.

So how do these recipients fare relative to one another? Overall, the income tested care supplement is more progressive. Jane, the single mother who worked as a waitress, would receive a large bump in her Social Security benefit, which would offset some of the costs associated with having children. Contrastingly, June, who was married to a wealthy man, had never been employed, and had no children, would no longer receive a spousal benefit. Because June had not been employed she is not eligible for a worker benefit. And because June did not have children she is not eligible for the care supplement. Whereas under the current system June would have a higher benefit than Jane, under the income tested care supplement Jane would have a higher benefit (at least until June's husband passed away and June became eligible for the survivor benefit).

The income tested care supplement also diminishes the disadvantage dual earner couples face compared to single earner couples. The two married couples each with total monthly average lifetime incomes of $1917 provide another contrast. Despite their similar earnings, they receive different benefits. The income tested care supplement reduces these differences. Under the current system, Jack and Jill, whom were both employed, would receive a total benefit of $1412. This benefit would be the same under the income tested care supplement. But when Jack died, Jill would now receive a $1035 benefit instead of a $812 benefit. Under the old system Linda and Jeff would receive a $1539 benefit. Under the new system, the total couple benefit would be $1305, though Linda's survivor benefit would still be $1026. The new system overall reduces the differences between these couples' benefits, though the remaining difference now slightly advantages Jack and Jill, the dual earner couple.

Aside from redistributive changes, we would expect there also to be differences among cohorts in terms of the relative proportion of individuals who will benefit from this change in policy. Because future cohorts will have more single mothers, lower marriage rates, and a higher proportion of dual earner married couples, future cohorts should benefit aggregately more from this proposal than would the current aged cohort. But how significant are the differences across cohorts? The following data will provide some sense of these differences.

First and foremost, more women in future cohorts will have spent more years of their life raising children on their own. Figure 3 shows the large rise in the percent of households headed by single mothers over the last 35 years. In 1970 just over 10 percent of households were headed by single mothers. By 2005 over 25 percent of households were headed by single mothers.

But it is not just being a single parent that will increase the probability that an individual would receive the income tested care supplement, they also must have a low enough income to qualify. Being a single parent places these families at an increased risk for poverty during their working years and consequently in their retirement years. Figure 4 shows the impact single parenthood has on poverty rates among these families. While poverty rates among married couples hover between 5 and 10 percent, they range from 30 percent for white women to over 40 percent for black and Hispanic women. That said, figure 4 also demonstrates that future cohorts of women who had been single mothers will be slightly more economically secure than their predecessors as their poverty rates are slightly lower. Nonetheless, because of the sheer rise in numbers of single mothers, more women in future cohorts would likely benefit from a benefit based on the work associated with raising children compared to a benefit associated with being married.

Obviously correlated with higher rates of single parenthood, future cohorts of women will be less likely to be married, which will have a large impact on whether they would qualify for current law spousal and survivor benefits. The implications of this is that relative to current law, among future cohorts of women, greater proportions of women will benefit from benefits linked to family status if they are linked to raising children as opposed to being linked to marriage. While in 1970, 87 percent of white women and 76 percent of black women aged 35 to 44 were married, this fell to 70 percent of white women and 41 percent of black women in 2000 (Census 2006). If current law remained, fewer women would reach old age and be able to qualify for spousal and survivor benefit among future cohorts of aged Americans. Indeed, as figure 5 shows, among those born in 1945, 90 percent of white women qualify for these benefits compared to just over 80 percent for those born in 1965. More strikingly, while about 70 percent of black women born in 1945 qualified for these benefits, only half of black women born in 1965 will qualify for these benefits.

Further, the greater proportion of dual earner couples among future aged cohorts will greatly impact the proportion of individuals who would benefit from the income tested care supplement. As already noted, dual earner couples would benefit more, compared to current law, from the income tested care supplement than would single earner households. Among those currently aged 65 and older, the majority of married women had largely not been employed throughout their working lives. For example, in 1957, when women aged 65 and older today were in their mid 20s to mid 50s (prime working years), 43 percent were in dual earner households compared to almost 60 percent of women today.

Finally, it should be noted that the income tested care supplement is indexed to wages, rather than price inflation. This will have a significant impact on the generosity of the benefit, and its ultimate impact on poverty, for future cohorts. Wages rise faster than price inflation. But the poverty line is set to inflation rather than wages. Consequently, the income tested care supplement will become even more effective at poverty reduction for future compared to more recent cohorts. Social Security worker benefits are also indexed to wages. This is why Social Security as a whole has had such a profound effect on poverty among the elderly over time. Social Security is largely responsible for the reduction in poverty among the elderly from nearly 40 percent in 1960 to less than 10 percent today. How big of a difference does this make? If in 1951, policymakers had decided to start indexing benefits to price inflation rather than wages, average Social Security benefits would be about half the size they are today and poverty rates among the elderly would likely be at least three times as high as they are today.

IV. Implementation and Unintended Side Effects

Like any new policy, the income tested care supplement would likely face a range of issues associated with implementation and unintended side effects. To address many of these issues I look specifically to the EITC. Because the income tested care supplement is modeled so heavily on the EITC, we can predict many of the potential problems that it will face.

A key implementation issue is that the benefit will be distributed by Department of Internal Revenue Service (IRS). Before discussing the potential downsides, it is important to point out the advantages. This administrative approach is useful for a few reasons. One, it provides administrative simplicity. Rather than applying for benefits through another agency, older people just need to fill out their tax returns. Second, this approach allows for income testing.

Most other care credit proposals, including ones I've analyzed, alter the basic worker benefit by dropping years of earnings or substituting years of earnings. Income testing this kind of benefit would be difficult because the Social Security Administration would need access to beneficiaries other income. While feasible, my approach is simpler administratively.

Finally, a significant advantage to this approach is that benefits can be income tested, but the percentage of qualified individuals receiving benefits should remain high. Most means tested programs have take-up rates of around 50 percent. The EITC, however, has rates that exceed 80 percent. While it is not entirely clear why the take-up rate is so high, there are two common explanations linked to distributing the benefit through the Internal Revenue Service. First, because the benefit is a tax credit, there is not the stigma normally associated with means tested benefits. Second, many argue that compared to the complicated forms normally associated with eligibility for welfare programs, the tax return is relatively simple.

But while this administrative approach is advantageous in some respects, like any other it possibly disadvantageous in other respects. The first issue surrounds benefit eligibility and benefit size determination. While we are concerned that those eligible receive the potential benefits, we might also be concerned about overpayments, both to those ineligible and to those eligible for benefits. Prior evidence of this potential problem can be found with the EITC, which loses approximates $8 billion a year as a result of these problems. There are two potential sources of error that have affected the EITC and are relevant for the income tested care supplement. Individuals have misreported their income or their filing status (married or unmarried) leading to an estimated $4 billion in overpayments (though given 20 percent of those eligible are not receiving benefits the overall deficit is likely a wash). The IRS started a series of initiatives to address and correct these problems. In short, they are improving the information tax filers receive and they are also doing more targeted audits to reduce error. The outcomes of these new approaches, however, have not been thoroughly evaluated. As the IRS continues to work on addressing these problems with the EITC, the knowledge they gain can be transferred to better administer the income tested care supplement.

While applying for the income tested care supplement through the IRS is simpler than the applications for many other means tested programs, it still will be somewhat complicated for many applicants. Indeed, much of the error in EITC payments comes from lack of knowledge or mistakes in the tax return rather than from deliberate fraud (GAO 2004). The IRS and other advocates have attempted to tackle the issue in two ways (GAO 2006). First, they have worked on improving the actual information that the IRS provides through forms and over the telephone. Second, they have developed and actively encouraged free tax preparation services by private tax firms, community groups and volunteers. When the IRS implements the income tested care supplement they can employ the same strategies that they employed with the EITC to address issues with the complexity of the application. Further, they can expand their education and tax preparation outreach to places like community centers that provide recreation, social and other services to the elderly. The Social Security administration can also mail information on the income tested care supplement to beneficiaries for those who receive checks rather than direct deposits.

A related concern regards the potential that older Americans receiving this credit will be taken advantage of by tax preparation firms. This has been a large problem for EITC beneficiaries. Nearly $1.5 billion out of the $30 billion spent annually on the EITC goes to tax preparation firms. They make around $900 million annually processing EITC recipients' tax forms. Additionally, firms such as H&R Block and Jackson Hewitt offer Refund Anticipation Loans (RAL). These are short term loans between filing and refund receipt. Because of their short term nature they have exorbitant annual percentage rates, often into the triple digits. And these profits for tax preparation firms are eating into EITC benefits. It is estimated that firms like H & R Block make around $1 billion processing RAL loans of which 60 percent are EITC recipients. Over 30 percent of EITC recipients apply for RALs. Between RAL loans and tax preparation fees a total of $1.5 billion is diverted from EITC recipients. Congress has done little to address the massive diversion of resources from the EITC. Only activism and pressure on the part of community organizations has led tax preparation firms to back down on some of their more egregious practices (Epstein 2007). Clearly, the income tested care supplement will face the same issues.

Aside form administrative concerns, we will also need to consider interactive effects with other polices. The two most relevant polices are Medicaid and the Supplemental Security Income (SSI) program. Poor elderly beneficiaries frequently rely on Medicaid to supplement the nearly half of medical care expenses that Medicare fails to cover. Increases in income would push many of these individuals above the eligibility line for Medicaid. Around 10 percent of elderly Medicare beneficiaries rely on Medicaid as a supplement—and this would be much higher among those who meet the income test for the income tested care supplement. If they were pushed off of Medicaid, their out-of-pocket health care expenditures would rise significantly and eat into the income gains that came from the income tested care supplement. Consequently, legislation would have to include measures to prevent the care supplement from being included in the eligibility formula for Medicaid.

The income tested care supplement would likely reduce the number of individuals relying on SSI for income support. SSI is an income and asset tested program for the elderly, blind and disabled. About 6 percent of those over the age of 65 receive SSI benefits. The federal maximum SSI benefit is set at 76 percent of the poverty level. Though about half of states supplement the benefit, none bring the benefit about the poverty line. SSI faces the same obstacles other traditional means tested program face. Only about half of those eligible actually receive benefits. Nonetheless, SSI provides an important safety net for those with very limited lifetime earnings. And this will remain the case with the income tested care supplement. Because the supplement is linked to prior earnings, those with almost no earnings will not benefit significantly from the credit and will likely to continue to rely largely on SSI.

The final consideration is what impacts this policy change would have on labor force participation. The elimination of spousal benefits and creation of the income tested care supplement would likely have a positive impact on labor force participation compared to current policy. Similar to the EITC, the size of the credit increases as one's earnings increase—up to a cap. This benefit structure has produced very large increases in labor force participation for recipients of the EITC (Meyer and Rosenbaum 2001). For low earning single mothers, the incentive is straightforward. The more they work, up to a cap, the higher their benefit. For married mothers, the effect is somewhat more complicated. For higher earning couples the elimination of the spousal benefit will substantially increase the incentive for these women to be employed. For example, in a couple where the husband has a $2000 monthly Social Security benefit, under the older rules the wife could receive a $1000 benefit. Under the new rules, she would receive no benefit—until he died when she would be eligible for the survivor benefit.

While there is clearly a positive incentive for labor force participation (for the new rules compared to current rules) for single parents and higher earning married couples, it is more complicated for lower earning married couples with children. In a couple (with two children) where the man's Social Security benefit is $700 a month, under current rules she would be eligible for a $350 spousal benefit. Under the income tested care supplement proposal the couple would be eligible for a $560 income tested care supplement (80 percent of the husband's $700 benefit), which would reduce her incentive to work. However, this negative incentive would be offset by the positive labor force incentive in regards to her eventual survivor benefit. Under current law and the proposed law she is eligible for a $700 survivor benefit. But if she was employed, she would also be eligible for a income tested care supplement to that benefit that was worth 80 percent of her worker benefit up to 125 percent of the poverty line for a single person. In sum, it is likely that for these couples the effect is a draw when comparing work incentives between the current rules and the income tested care supplement proposal.

V. Comparison to Other Policy Approaches

To compare my approach to other policy proposals that address the problems with spousal and survivor benefits, I draw on both my own prior work (Herd 2005a; Herd 2005b; Herd 2006) and work done by places including the Urban Institute, the Government Accountability Office, and the Social Security Administration that have analyzed these kinds of policy changes (Faverault et al. 2002; Faverault et al. 2002; GAO 2007; Iams and Sandell 1994). There are a few common themes across these studies. First, reforms that attempt to simply fix spousal and survivor benefits, but do not expand coverage to unmarried women, fail to protect the most vulnerable beneficiaries. Two, the reforms most effective at reducing poverty are minimum benefits. Third, the most generous minimum benefits, which are most effective at reducing poverty, provide significant benefits to well-off married women.

There are three relatively common proposals that aim to fix spousal and survivor benefits rather than create a new kind of benefit. One proposal, which emphasizes concerns about poverty among widows, would increase the survivor benefit to 75 percent of the couple benefit Burkhauser and Smeeding 1994). This would help address the problem that survivors in dual earner couples have significantly smaller benefits than survivors in single earner couples (when total household earnings are identical). Melissa Favreault and colleages (2002) find, however, that, for those retiring in 2040, this would have little impact on most women's benefits. It would reduce the percentage of women receiving Social Security benefits below the poverty line from 7.8 percent to 6.9 percent. For widows, the reduction would be from 5.8 percent to 3.2 percent.

But the benefit does nothing for the 22.8 percent and 16.5 percent of never married and divorced women, respectively, whose benefits fall below the poverty line.

Two other proposals target the growing percentage of divorced elderly women who do face high poverty risks in old age. One proposal is to reduce the marriage requirement to qualify for spousal and survivor benefits from 10 years to seven years. This, however, would benefit just 3 percent of divorced women retiring in 2040 (Favreault et al. 2002; GAO 2005). Herd (2005) analyzed a proposal that would increase the spousal benefit for divorced beneficiaries from 50 percent of her former husband's worker benefit to 75 percent. She found that up to one-third of divorced women retiring between 2020 and 2030 would benefit from this proposal, and that these women had very low assets. However, it did nothing for never married women, whom comprise a growing percentage of the population.

Rewarding individuals for raising children is the second approach commonly suggested to improve Social Security benefits for vulnerable women. There are three general approaches to creating care credits. One approach is to allow individuals to drop additional years of earnings from the 35 years used to calculate the worker benefit. Herd (2006) finds, however, that this would disproportionately benefit women from high asset households. While 49 percent of women in the top asset quartile would benefit, 43 percent of those in the bottom asset quartile would benefit. A similar proposal would allow individuals to drop zero earnings years from the benefit calculation, but similar to the prior proposal, it disproportionately benefits higher asset households (Herd 2006). Further, because of women's rising labor force participation, fewer and fewer women would benefit from the proposal over time (Herd 2006; Iams and Sandell 1994).

The most commonly analyzed care credit would allow parents of young children to substitute up to half of median wage for earnings years (when their children were young) that fall below this level. Favreault and colleagues (2002) find, however, that this proposal would have marginal impacts on benefits for women reaching retirement age in 2040. The percentage of those with benefits below the poverty level would fall from 22.8 percent to 21.7 percent for never married women, from 16.5 percent to 15.6 percent for divorced women, from 5.8 percent to 5.7 percent for widows and from 7.8 to 7.4 percent for all women. Analyses by GAO (2007) are similar.

The third most common approach to improving benefits for vulnerable beneficiaries is to enact a strong minimum benefit. While analyses indicate that this is the most effective approach at reducing economic insecurity among vulnerable beneficiaries, some point out that the political feasibility of these minimums is weak. In fact, Social Security had a minimum benefit that was eliminated in the early 1980s, in part, because policymakers were concerned that housewives were the primary beneficiaries (Herd 2005). Nonetheless, minimum benefits have received significant attention from policy analysts in the past few years.

Most minimum benefit proposals, likely because of concerns about political feasibility, require a significant number of years of employment for eligibility. Further, benefit size is often linked to the number of years of employment. The most common proposal requires a minimum of 20 earnings years, which would garner a minimum benefit set at 60 percent of the poverty level and would rise to 100 percent of the poverty level at 40 earnings years. The poverty reduction effectiveness of this minimum depends largely on the size of the minimum benefit. Larger minimums lead to greater reductions in poverty. The greatest variation in the size of the minimum is based on whether the minimum is linked to a wage or price indexed poverty threshold. A minimum benefit based on 100 percent of the poverty level for a single person in 1969 would be worth approximately $9888 in 2006 if the minimum was adjusted to price inflation over time. If that minimum was adjusted to wage inflation over time, however, it would be worth $11,805 in 2006. Wages rise faster than inflation. In an analysis done by Favreault and colleagues (2006), in 2050 about 16.4 percent of women would benefit from the wage indexed minimum described above, compared to 4.8 percent for the price indexed version. While the price indexed version would reduce the poverty rate among the elderly by about 6 percent, the wage indexed version would reduce it by 25 percent (Favreault et al. 2002).

So how do these benefit approaches stack up to the income tested care supplement? Compared to improvements in spousal and survivor benefits, specifically raising benefits for divorced and widowed beneficiaries, the income tested care supplement will clearly better protect the women most likely to be economically vulnerable in old age—never married single mothers. The main advantage of the income tested care supplement over the care credit benefits is that it more effectively targets benefit increases towards the poorest beneficiaries. Contrastingly, the care credit proposals described above are beneficial to women across income ranges. Of course, the relative downside is that the income tested care supplement does not benefit everyone who raises children.

The advantage of the income tested care supplement relative to minimum benefit is that it more effectively targets resources at the poorest beneficiaries. The minimum benefit would not be income tested so those in households with high earnings, but one partner who is minimally employed, can benefit. For women retiring around 2020, about 13 percent of those who would benefit from the most commonly proposed minimum would have family lifetime earnings in the top two quintiles (GAO 2007). Indeed, a greater percentage of married women benefit from this proposal than do never married, divorced, or widowed women. The more generous these minimum benefits are, the more likely they are to benefit married women with limited earnings who are married to high earning men. But the only way to effectively reduce poverty with a minimum is to have one sufficiently high to reduce poverty level. Thus, the minimum tends to be inefficient because to substantially reduce poverty levels, particularly among single women, it must be quite generous, but if it is generous it will still benefit married women with limited earnings married to high earning men.

One final issue is the political feasibility and popularity of these policy proposals. Traditional care credits would cover a much broader range of individuals and therefore appeal to the universal tendencies of the program, which have made Social Security so popular. Because everyone benefits, it has strengthened the program into one that is nearly politically invincible. A very generous minimum could have a similar effect, though a more tightly targeted minimum would not. But proposals that cover large swaths of the population would face a large hurdle because they would also be very expensive.

What about the income tested care supplement? On the one hand, it would be much less costly and therefore may be more likely to be passed into law in the first place. On the other hand, it would not benefit large numbers of individuals and therefore would be more vulnerable, if it is passed into law, for cuts to it over time. There would be fewer people to notice and object to changes to it. If the EITC is the model, however, the benefit is likely to fare well over time. Even in the midst of budget crises, there have been no cuts to the EITC. It is likely, however, that eliminating spousal benefits will be politically difficult.

One thing that all of these proposals have in common is that they are based on equity principles, in addition to adequacy principles. The minimum benefit proposals all require many years of employment—albeit at low earnings. The care credits are based on the premise that people are contributing to society by having and raising children. The income tested care supplement combines these two contributions. It rewards both employment (albeit low wage employment) and childrearing.

IV. Policy Flexibility and Costs

How will this proposal impact Social Security costs? While further analyses will need to be completed to provide a thorough cost estimate, I can provide some general sense about the change in programmatic costs. First, it is important to point out that the proposal is very efficient, only targeting those individuals with the lowest incomes. Second, the elimination of spousal benefits will provide significant resources to fund this proposal. Third, spending on the income and asset SSI will be reduced as SSI beneficiaries become eligible for the income tested care supplement.

It is also important to point out that the proposal has flexibility to allow modifications to make it more, or less, costly and generous. For example, if we had the desire and resources, we could build into the proposal a way that caring years also helped one to meet qualifying conditions for the Social Security worker benefit (i.e. 1 child would get you 5 qualifying years, 2 children, 7 qualifying years). We could also establish a minimum 'income tested care' that would help more greatly boost those with very low benefits. Or to make the proposal less generous, the benefit size could be reduced to a smaller percent of the survivor child care benefit. I will discuss many variations in the proposal, including the possibility of eliminating spousal benefits to fund this proposal.

One final key issue that will need to be resolved regarding the eligibility parameters regards what kind of caregiving will qualify. As proposed, it only covers those who have children. The proposal could cover those who care for older people or for those with severe disabilities. Covering these groups, however, does complicate the ability to validate eligibility.

References

Burkhauser, Richard V., and Karen C. Holden, eds. 1982. *A Challenge to Social Security: The Changing Roles of Women and Men in American Society*. Academic Press.

Dye, Jane. 2005. Fertility of American Women, June 2004. P20-555. Census Bureau.

Government Accountability Office. 2007. Women Face Challenges in Ensuring Financial Security in Retirement. Washington, DC.

Favreault, Melissa, Frank Sammartino, and Eugene Steuerle, eds. 2002. *Social Security and the Family*. Urban Institute.

Favreault, Melissa M., Gordon B. T. Mermin, and C. Eugene Steuerle. 2006. "Minimum Benefits in Social Security." #2006-17. Washington, DC: AARP Public Policy Institute. August. http://assets.aarp.org/rgcenter/econ/2006_17_socsec.pdf.

Gennetian, Lisa, Leonard Lopoo, and Andrew London. 2008. Maternal Work Hours and Adolescents' School Outcomes among Low-Income Families in Four Urban Counties. *Demography* 45(1):31-53.

Goldstein, Joshua R., and Catherine T. Kenney. 2001. "Marriage Delayed or Marriage Forgone? New Cohort Forecasts of First Marriage for U.S. Women." *American Sociological Review* 66 (4) (August): 509-519.

Holden, Karen. 1979. "Inequitable Distribution of OASI Benefits among Homemakers." *Gerontologist* 19(3):250–56.

Harrington Meyer, Madonna and Pamela Herd. 2007. *Market Friendly or Family Friendly: The State and Gender Inequality in Old Age*. Book manuscript. The American Sociological Association's Rose Series. New York: Russell Sage.

Harrington Meyer, Madonna. 1996. "Making Claims as Workers or Wives: The Distribution of Social Security Benefits." *American Sociological Review* 61 (3) : 449-465.

Harrington Meyer, Madonna, Douglas Wolf, and Christine Himes. 2006. "Declining Eligibility for Social Security Spouse and Widow Benefits in the U.S.?" *Research on Aging* 28(2):240-260.

Herd, Pamela. 2002. Crediting Care, Citizenship, or Marriage: Gender, Race, Class and Social Security Reform. Dissertation. Syracuse University: Syracuse, NY.

Herd, Pamela. 2004. “Reforming Social Security Family Benefits: Balancing Equity and Adequacy.” Pp 114-126 in Strengthening Community: Social Insurance in a Diverse America, edited by K. Buto, M. Patterson, W. Spriggs, and M. Rockeymoore. Washington, DC: Brookings Institution Press.

Herd, Pamela. 2006. “Crediting Care?: Gender, Race, Class and Social Security Reform” *The Journals of Gerontology: Social Sciences*.

Herd, Pamela. 2005a. “Reforming a Breadwinner Welfare State: Gender, Race, Class and Social Security Reform.” *Social Forces.*

Herd, Pamela. 2005b. “Ensuring a Minimum: Social Security Reform and Women.” *The Gerontologist*.

Herd, Pamela. Forthcoming. “Women, Public Pensions, and Poverty: What Can the U.S. Learn from Other Countries?” In Women’s Retirement Security. Edited by H. Hartmann. New York: Russell Sage.

Johnson, Richard and Melissa Favreault. 2004. “Economic Status in Later Life among Women who Raised Children Outside of Marriage.” *Journals of Gerontology: Social Sciences* 59:S315-S-323.

Smeeding, Tim, Carroll Estes, and Lou Glasse. 1999. “Social Security Reform and Older Women: Improving the System.” Working Paper 22, Syracuse University.

Smeeding, Timothy M., and R. Kent Weaver. 2003. The senior income guarantee (SIG): A new proposal to reduce poverty among the elderly. CRR Working Paper No. 2001–12, Chestnut Hill, MA: Center for Retirement Research at Boston College (December).

Social Security Administration. 2007. *Annual Statistical Supplement, 2006.* Washington, DC: Social Security Administration.

Steuerle, Eugene, Christopher Spiro, and Adam Carasso. 1999. “Does Social Security Treat Spouses Fairly?” *Straight Talk on Social Security*, no. 12. Urban Institute.

U.S. Census Bureau. 2000. “America’s Family and Living Arrangements: Population Characteristics.” *Current Population Reports*, P20–P537.

U.S.Census Bureau. 2004b. "Table POV01: Age and Sex of All People, Family Members and Unrelated Individuals Iterated by Income-to-Poverty Ratio and Race in Annual Social and Economic Supplement." Washington D.C. http://pubdb3.census.gov/macro/032004/pov/toc.htm.