

From: Andrew G. Biggs, Social Security Analyst, The Cato Institute; former staff member, President's Commission to Strengthen Social Security.

To: Those Interested in Social Security Reform

Date: May 9, 2002

Re.: Older Women's League (OWL) study, "Social Security Privatization: A False Promise for Women," released May 7, 2002.

A new report from the Older Women's League (OWL) argues that women would be hurt by Social Security reform incorporating voluntary personal retirement accounts. That is not the case.

Women are more dependent on Social Security than men, making them more vulnerable to the current program's projected insolvency and the more than 25 percent cut in benefits that would, by law, follow. Moreover, Social Security's benefit formula disadvantages many women, particularly working women, single women and divorcees.

Social Security reform proposals incorporating voluntary personal accounts, including those put forward by the President's bipartisan reform commission (www.csss.gov), make Social Security solvent over the long-term and help address the quirks in the benefit formula that harm many women. Low-wage workers, including many women, would receive higher total benefits than the current system even promises, much less can actually afford to pay. Moreover, under the President's commission's plans, current and near-retirees have their benefits fully guaranteed. No one over age 55 would see any changes to their benefits, including annual cost of living adjustments (COLAs).

Why women need Social Security reform

- While touted by OWL as having "unmatchable protections," the current system taxes away an eighth of a woman's wages and still allows millions of women to retire into poverty, 11.8 percent in all (vs. 6.9 percent for men). Widowed, divorced or never-married women face particularly high poverty rates: 16.8 percent for widows over age 65, and 24.7 percent for divorced, separated or never-married women over 65.
- Poverty rates could increase even more under the current program. Experts like the Urban Institute's Karen Smith predict that "elderly poverty rates may increase dramatically for the less educated and those who never married."
- Non-married women over 65 rely on Social Security for an average of 50 percent of their retirement income. Thirty-eight percent of unmarried women rely on Social Security for 90 percent or more of their retirement income. Women are particularly threatened by the benefit reductions that will occur in the absence of reform (a 25 percent reduction in 2041).
- Social Security contains several quirks that hurt working women. Almost two-thirds of working women receive no additional benefits for the taxes they contribute, and a

low-wage single woman who worked and contributed her entire life actually receives *lower* monthly benefits than a non-working spouse from a high-income household.

How personal account plans help women

- Under proposals from the President's Commission to Strengthen Social Security, all workers and retirees over age 55 would be completely protected from any benefit changes, including annual cost of living adjustments (COLAs). Current retirees and near-retirees would see no changes whatsoever.
- Younger workers could voluntarily invest part of their payroll taxes in a personal retirement account holding approved, diversified investments. The commission's reform proposals would pay all workers higher total benefits than the current system can afford to pay. Low-wage workers – who are predominantly female – could expect to receive more than the insolvent system even promises. For instance, a low-wage woman retiring in 2042 under one of the commission's proposals would receive \$986 per month (in \$2001), which is \$330 more than the \$654 Social Security could afford to pay her and \$90 per month more than Social Security even promises.
- Commission proposals guarantee that minimum-wage workers do not retire into poverty, lifting up to one million seniors out of poverty, according to Social Security's actuaries.
- Commission proposals also increase benefits for below-average-wage widows. Under the current system, a widow receives just 50 to 66 percent of the couple's former benefit. Commission proposals raise the widow's benefit to 75 percent, increasing benefits for as many as two to three million widows, according to Social Security's actuaries.
- Under the current program, a woman who is divorced prior to 10 years of marriage has no right to benefits based on her husband's earnings. Marriages ending in divorce have a median length of just 7 years, and fully one-third of all marriages end prior to the 10 years needed for benefit eligibility. The commission proposals mandate that account contributions be split evenly between spouses in the case of divorce. If married to an average wage male, this provision could increase a divorced woman's monthly retirement income by \$55 to \$215.
- Personal accounts would give all workers a true legal right to their Social Security benefits and would prevent the government from "raiding" Social Security to pay for other programs. Workers dying prior to retirement could pass on their accounts to their children, heirs, or a chosen charity.

Claims and Facts in the OWL Report

<i>Claim</i>	<i>Fact</i>
“Private accounts destroy the social insurance nature of Social Security”	Under the President’s commission’s plans, Social Security’s insurance functions would be <i>strengthened</i> , with benefit increases for lower-wage widows and a new anti-poverty guarantee for minimum wage workers. Poverty in old age would be <i>lower</i> under the commission’s reform plans than under the current system.
“Private accounts don’t offer Social Security’s insurance against unexpected events”; “No protection against disability or early death.”	Under the commission’s proposals, Social Security’s disability and survivor’s protections would continue to be run through the traditional program. Personal accounts are designed primarily to provide retirement benefits.
“Private accounts don’t come with inflation-adjusted benefits.”	Inflation-adjusted annuities are already on the market, and the Social Security Administration’s analysis of the commission’s reform proposals assumes retirees would convert their account balances to monthly benefits indexed for inflation. Retirees would also have the choice of standard annuities or gradual withdrawals from their accounts, leaving the remainder to their heirs.
“Private accounts ask women to bear more risk;” “Private accounts are tied to stock market volatility.”	Absolutely false. Personal accounts would be wholly voluntary: no worker would be required to accept a personal account, and no worker with a personal account would be required to invest even a penny in the stock market. Workers wanting absolute security could invest only in government bonds, giving them lower risk (and higher benefits) than the current system, as well as true ownership and control over their savings. Moreover, long-term diversified stock investments have proved remarkably stable: over 20 years or more, stocks have never lost value. Holding for 30 years, the worst real annual stock return has been 2.6 percent, roughly <i>double</i> what Social Security will pay.
“Private accounts offer less reward than promised.”	Social Security’s actuaries completed an 85-page, detailed analysis of the commission’s proposal. The conclusions: all three commission plans would pay higher benefits than the current system can afford, and all three would move the program toward long-term sustainability.
“Private accounts cost more to administer.”	The Social Security administration estimated that personal accounts could be administered for just 0.3 percent of assets managed. Even after deducting administrative costs, all workers with personal accounts could expect higher total benefits than if they had stayed in the current system.
“Private accounts speed up insolvency.”	Social Security will be insolvent by 2041. The commission’s two comprehensive reform plans keep Social Security solvent permanently.

<p>“Private accounts may drive benefit cuts.”</p>	<p>The commission’s reform plans are certified by the Social Security administration to pay higher benefits than the current system can pay.</p>
<p>“Private accounts promise high ‘rates of return’ but can’t compare to Social Security’s unmatched set of protections.”</p>	<p>Individuals should be given the voluntary choice to accept a personal account or to remain in the current system. As noted above, Social Security’s “unmatchable” protections let over one-quarter of divorced, widowed or never married women retire into poverty. Non-partisan analysis shows that personal account plans can do much better.</p>
<p>“The creation of 2 percent private accounts would double the current 75-year shortfall.”</p>	<p>One commission proposal would do nothing <i>but</i> create voluntary 2 percent personal accounts. No other changes would be made. Rather than doubling Social Security’s deficits, this plan is certified to reduce the 75-year general revenue cost of supporting the program by 8 percent, while paying higher benefits to all retirees.</p>
<p>“Women spend, on average, 12 years out of the workforce,” implying that they would not have enough earnings to contribute to personal accounts.</p>	<p>It is true that women <i>used</i> to spend many years out of the workforce due to their traditional roles as homemakers and caregivers. Today, women’s roles are different, and the SSA projects that women born from 1946-1960 will spend just 3.7 years on average out of the workforce from age 22 to retirement. For younger women, these numbers could be lower. Even in these non-working years, a woman’s personal account would continue to earn interest on its investments.</p>
<p>“A divorced woman would not be entitled to receive a share of her ex-husband’s private account.”</p>	<p>Unequivocally false. Under the commission’s proposals, “All account balances attributable to contributions during marriage, and all earnings on account balances brought into marriage, should be divided equally in the event of divorce.”</p>