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THE TREATMENT OF MARRIED WOMEN BY THE SOCIAL SECURITY RETIREMENT PROGRAM

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Most analyses of the distributional impact of the Social Security program find that women receive higher lifetime benefits relative to their lifetime earnings and contributions to the program than do men. Women have lower average earnings and thus benefit from the program's progressivity; they have longer average life spans and thus benefit from the fact that Social Security benefits are paid as an annuity; and finally, married women are often eligible to receive Social Security auxiliary benefits, either as a spouse or a widow, which supplement the benefits to which they are eligible based upon their own earnings records.

For these reasons, women generally pay a lower "net tax rate" – the net values of taxes and benefits, represented as a percentage of lifetime earnings – than men. But traditional net tax rate measures can not be interpreted for the purposes of gauging labor supply incentives under Social Security as income or other tax rates might be. The reason for this is that under Social Security a significant portion of a married individual's benefits might be generated based on the earnings of his or her spouse. Specifically, most women receive part of their benefits based upon their husband's earnings record, either through Social Security spousal benefits or through widow's benefits. This implies that a relatively high ratio of benefits to taxes for married women does not necessarily imply better incentives to participate in the paid labor force.

For these reasons, we calculate a supplementary measure we call the "generated net tax rate." The generated net tax rate measures the net value of lifetime taxes and the benefits *generated by those taxes*, relative to lifetime earnings. In the case of married women, the generated net tax rate would reflect any benefits the wife's earnings entitle her to in addition to the auxiliary benefits she could receive based upon her husband's earnings. Relative to her lifetime earnings, this often produces a generated net tax rate close to or equaling the statutory tax rate, thus reflecting poorer work incentives.

We calculate generated net tax rates for individuals in 10-year birth cohorts from 1940 through 1990 using the Social Security Administration's MINT (Modeling Income in the Near Term) microsimulation model, which matches SIPP (Survey of Income and Program Participation) data to Social Security earnings records, projected to simulate future earnings and benefits. These calculations raise several points of interest.

First, the typical married woman in the 1940 birth cohort pays a generated net tax rate well in excess of her traditional net tax rate, reflecting the fact that most women in this group will receive Social Security

auxiliary benefits. For married women in the 1940 birth cohort, the traditional net tax rate equals -9.63 percent of lifetime earnings, indicating a significant transfer from the Social Security program. Most of this transfer is due to the payment of auxiliary benefits; unmarried women in the 1940 cohort pay a net tax rate of -0.79 percent of earnings, indicating a far smaller transfer. However, the median married woman in the 1940 cohort pays a generated net tax rate of 7.5 percent of earnings, a value that approaches the full statutory payroll tax rate (noting that statutory tax rates were lower in the past than the current 12.4 percent rate). Thus, one cannot infer from generous overall treatment of married women by the Social Security program that incentives to participate in the paid workforce were strong. In most cases, married women paid significantly higher generated net tax rates than unmarried women or men.

Second, one would expect that, with increases in female earnings, generated net tax rates for married women might decline, but this turns out not to be the case. As more married women receive retirement benefits based upon their own earnings records, increases in earnings by these women would also produce increases in their benefits. This would reduce generated net tax rates. However, we find that generated net tax rates for married women will tend to rise over time. At the median, the generated net tax rate rises from 7.5 percent of earnings for the 1940 cohort to 10 percent for the 1961-1970 cohort (1970 cohort). Rates level off thereafter, although policies to maintain program solvency would be expected to increase them further.

Two factors account for this increase. First, statutory tax rates have risen over time, implying that maximum potential generated tax rates have also increased. Thus, a married woman in later cohorts who receives auxiliary benefits throughout her lifetime would be paid a higher generated net tax rate than a similar woman in an earlier cohort simply because she paid a higher statutory tax to the program through her working lifetime. Second, most married women's earnings appear to be well below the level needed to generate net benefits based upon their own earnings record rather than that of spouse. While higher earnings would eventually cause a married woman to generate benefits based on her own earnings record, they first must bridge a gap in which no additional benefits are produced. This can produce higher generated net tax rates.

As the population ages, policies to increase incentives to participate in the labor force may help improve the financial condition of Social Security and other entitlement programs, as well as improving the retirement security of individuals who choose to work longer. Additional study is merited on potential policies that might reduce generated net tax rates for married women and thereby improve incentives to work.

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