

## **Does Social Security Continue to Favor Couples?**

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Prepared for the 16<sup>th</sup> Annual Joint Meeting of the Retirement Research Consortium  
August 7-8, 2014  
Washington, DC

This research was supported by a grant from the U.S. Social Security Administration (SSA) as part of the Retirement Research Consortium (RRC). The opinions and conclusions expressed are solely those of the authors and do not represent the opinions or policy of SSA, any agency of the federal government, the Urban Institute, Mathematica Policy Research, or the Center for Retirement Research at Boston College.

Introduced into the Social Security program in 1939, spouse and survivor benefits have important implications for the retirement security of women. At the same time, the extent to which these family benefits impact “horizontal equity” of the Social Security program has been a consistent interest in academic circles and the broader policy community.

Spouse and survivor benefits were established at a time when most households consisted of a single earner, typically the husband. The provisions of these benefits were intended to increase adequacy, particularly important for women with little or no lifetime earnings. On virtually every dimension, women’s economic lives have changed, and these changes are remaking the current and future profile of the U.S. retiree population. Compared to thirty years ago, married women today have higher levels of education, increased labor force participation, and more stable career trajectories and higher salaries. Wu et al. (2013) examined how women’s changing lives have affected the Social Security replacement rates that individuals and households receive at the time of first claiming. Their study found that Social Security replacement rates have dropped sharply at both the household and individual levels, and the declines will continue for future retirees. The decline in replacement rates over time is largest for married couples with husbands having higher earnings.

Analyzing replacement rates only at initial claiming has two disadvantages: first it does not allow examination of how Social Security redistributes income on a lifetime basis; and second, it misses an important aspect of the relationship between family structure and Social Security benefits. While an extensive literature has documented a substantial decline in the fraction of women eligible for spousal benefits at retirement, Butrica and Smith (2012) find that most wives would still receive a survivor benefit, as wives still typically have lower earnings than their husbands and live longer. Thus, on a lifetime basis, the extent to which benefits per dollar of contributions for couples relative to single earners has changed is unclear.

This paper examines the extent to which Social Security continues to favor couples and will do so in the future. It explores changes in the ratio of the expected present value of Social Security benefits to the expected present value of contributions by marital status at both the household- and individual-level over time and for future retirees. The primary analysis is based the *Modeling Income in the Near Term* (MINT) microsimulation model. We also supplement MINT with the *Health and Retirement Study* (HRS) linked with Social Security administrative earnings records, which contains lifetime earnings profiles of actual workers and provides details

of workers' demographics and marital status. The paper extends previous studies in that it makes use of rich data sources to produce the measures of redistribution across a broad range of cohorts: Depression Era (born 1931-41), War Baby (1942-47), Early Baby Boomers (1948-53), Middle Baby Boomers (1954-59), Late Baby Boomers (1960-65), and Generation X (1966-75).

Further, the study decomposes the reasons behind the changes in the ratio of benefits to contributions into the contributing factors, including women's labor supply, the increased Full Retirement Age and changing claiming behaviors, and marriage patterns, using a Blinder-Oaxaca decomposition and a semi-parametric approach developed by Dinardo, Fortin and Lemieux (1996). This exercise quantifies how each of these changes has contributed to the change in progressivity of Social Security system over time.

This paper focuses on several measures of redistribution: 1) the ratio of the expected present value of Social Security benefits to the expected present value of contributions; 2) the lifetime net tax rate, defined as the present value of lifetime OASI tax payments minus the present value of lifetime OASI benefits divided by the present value of the individual's lifetime earnings; and 3) the share of individuals with negative tax rate or, in other words, the share receiving positive transfers from Social Security.

The results show that, first, benefit/tax ratios and the share of individuals receiving positive transfers from Social Security are declining over time both for individuals and households. While the OASI program still redistributes lifetime income from men to women, and from single households to couples, the differences between household types in the returns from the system that they receive appear to be shrinking over time. Although married couple households are starting to look more like their single counterparts in terms of their money's worth from the system, couples – particularly single-earner households of the Gen X population – are still projected to have a higher benefit/tax ratio and a lower median net tax rate, and a higher share of them will be receiving positive net transfers from the system as compared to those who are never married or divorced.

Further, the decomposition analysis shows that the increased labor force participation and earnings of women have contributed significantly to the decline in redistribution from men to women, and from single households to couples. Differences in marital status have a statistically significant, but economically small in magnitude, effect in explaining the total difference.

## References

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