

**The Effect of Social Security Auxiliary Spouse and Survivor's Benefits
on the Household Retirement Decision**

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In 2011, 12.9 million age-qualifying Americans received \$112 billion in Spouse's and Survivor's benefits from Social Security based on their husband's or wife's earnings history. The Spouse's Benefit alone, while representing less than 4 percent of annual Social Security old-age expenditures, amounts to \$24 billion, which is larger than the individual 2012 budgets of 27 states, Canada's total military expenditures (\$22.5b, 2013), and the entire federal budget for assistance to families with dependent children (TANF - \$17.6b, 2012). Initially called the "wife's benefit," these benefits were introduced in 1939 when only 15 percent of households had two earners, compared to over 72 percent for households retiring after 1992. No study has examined the effect of both the Spouse's and Survivor's Benefits on household retirement behavior because of the complexity associated with estimating a structural model of interconnected household decisions. This study answers the question: *how responsive are husbands' and wives' retirement decisions to Spouse's and Survivor's Benefits?*

The Social Security Spouse's Benefit specifies that a worker's spouse is eligible to claim an additional 50 percent of the worker's Social Security benefits, but the net gain is reduced based on the spouse's own earnings history. For example, consider a single-income household where the husband is individually entitled to monthly benefits of \$1,200. The wife, in this household, would receive an auxiliary benefit of \$600 to bring her to 50 percent of her husband's monthly benefit level, yielding a combined \$1,800 in household benefits. Alternatively, in a dual-income household, if each person is entitled to a benefit of \$600 (the same baseline entitlement of \$1,200 as above), then the spouse's benefit is zero. Despite the equivalent baseline entitlements, the single-earner household would receive \$600 more in household benefits. Additionally, the survivor's benefit specifies that the surviving member of a marriage is entitled to the greater amount of her own benefit or the deceased's benefit. Therefore, if the husband died in our example, the single-income household would have \$1,200 in monthly benefits, while the dual-income household would only receive a total of \$600 in monthly benefits. In addition, the worker's spouse cannot claim the Spouse's Benefit until the worker has claimed his or her benefit.

In 2011, 5.16 million people received an old-age Spouse's Benefit, and 7.78 million people received an old-age Survivor's Benefit, most of whom were women. The average monthly benefit for a wife who was not entitled on her own earnings history was \$608, and for a widow or widower, it was \$1,185. Approximately half of women who receive the Spouse's

Benefit are dually entitled, meaning that they are entitled to a benefit on their own earnings record, but that it is less than 50 percent of their husband's benefit. Consequently, these women receive the difference between their own benefit and the Spouse's Benefit (i.e. in the end, they receive the same amount as an individual who was not entitled to a benefit on her own earnings record). The average monthly Spouse's Benefit portion for these dually-entitled women is \$243.64. While the fraction of women entitled to auxiliary benefits has fallen from 61.2 percent in 1960, to 52.5 percent in 2011, these benefits still affect the majority of the households over the age of 62 in the United States.

This paper builds on the growing structural life-cycle retirement literature, which captures the dynamic interplay in people's choices, to model the household's decisions regarding savings, labor supply, and benefit claiming. I model the complex Social Security rules that reward and penalize spousal work choices, and allow them to interact with other key determinants of the household problem, including household savings, private pension plans, and uncertain health, mortality, and medical expenses. I conduct counterfactual experiments that show households respond sharply to changes in the Survivor's Benefit, but little to changes in the Spouse's Benefit. My results show that reducing both benefits between 50 percent and 100 percent cause women to work 0.47 to 1.27 years longer. The effect is nonlinear for men: increasing work by 0.29 years when both benefits are reduced by half, but decreasing work by 0.53 years when they are eliminated. This result suggests the annuity provided by the Survivor's Benefit, even if reduced, creates a strong incentive for the couple's high earner to continue working. Finally, I find nonlinear savings to Social Security from reducing Spouse's and Survivor's Benefits amongst the married, non-disabled population in my sample: when these benefits are reduced by half, it achieves 74.1 percent of the savings from eliminating these benefits. The model demonstrates these nonlinear savings arise primarily due to the structure of Social Security benefits, not from changes in labor supply.