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MODERNIZING SOCIAL SECURITY: WIDOW BENEFITS

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Introduction

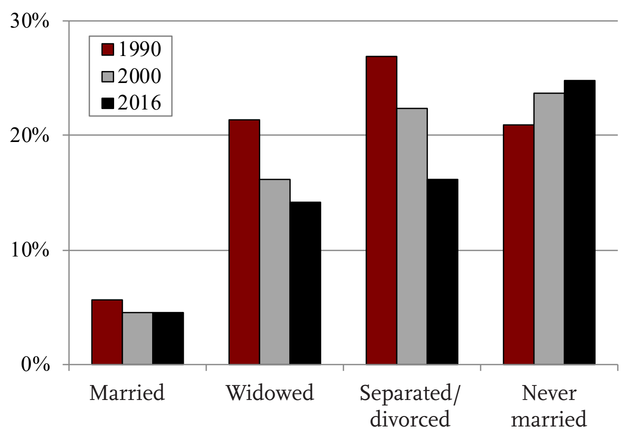
Since 1939, Social Security has provided benefits to widows to help prevent a precipitous drop in their standard of living after their spouse dies.[1] Today, many policy experts are concerned that these benefits may be inadequate for two reasons: 1) widows remain a poor segment of the elderly population; and 2) with the increased labor force participation of women, widow benefits as a percentage of the couple's combined benefits have been declining. Improving benefits for widows is an area in which some agreement has emerged. A popular approach is to increase the widow benefit and cover the cost by reducing the spousal benefit – essentially shifting money from a time when both members of the couple are alive to a time when only one member is alive.

This *brief* on widow benefits is the third in a series on modernizing Social Security to account for changing social, economic, and demographic circumstances. The discussion proceeds as follows. The first section describes the economic status of widows. The second section explains why widow benefits have been declining relative to the couple's income. The third section summarizes the standard option for improving widow benefits. The fourth section assesses this option based on three criteria: targeting efficiency, administrative feasibility, and cost offsets. The final section concludes that boosting the widow benefit, while limiting the size of the increase for higher earners, could be a well-targeted way to help reduce poverty for this vulnerable group.

Widows Remain Poor

The poverty status of widows has improved markedly over the last 25 years, reflecting the increased education and labor force participation of women and a requirement that joint-and-survivor annuities be the default under defined benefit pension plans.[2] Nevertheless, the poverty rate for widows ages 65 and over today is three times that of married women (see Figure 1); and, at older ages, widows account for the

Figure 1. Poverty Rates for Women Ages 65 and Over by Marital Status, 1990, 2000, and 2016



Source: Author's calculations from U.S. Census Bureau, *Current Population Survey* (CPS) (1991-2017)

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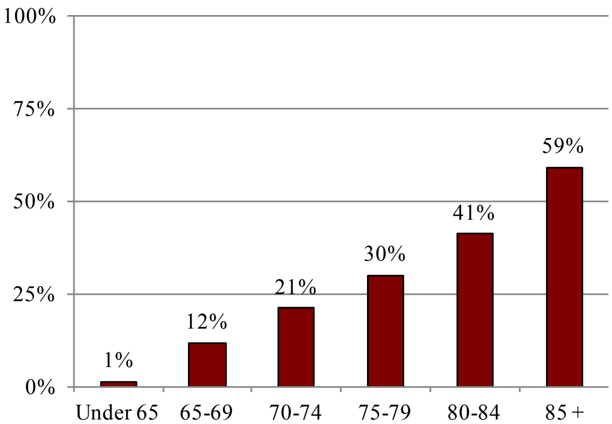
majority of households (see Figure 2). (Poverty rates are even higher for women who are divorced or never married, but they could be helped by other benefit improvements discussed in this series of *briefs*.)[3]

Figure 2. Widows as a Percentage of Total Households by Age Group, 2016



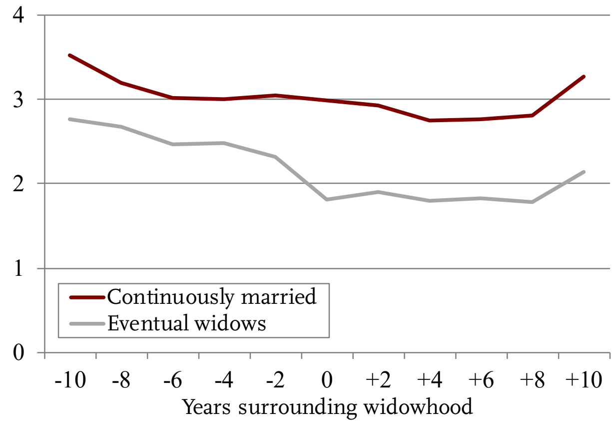
Note: Widowers are excluded here as they make up only a small fraction of the widowed population.
Source: Author's calculations from 2017 CPS.

Widows end up poor for a number of reasons. The most straightforward is the loss of retirement income when the husband dies. The couple's Social Security benefit is cut by one-third to one-half, and the couple's private pension benefit is either cut in half – the default option – or disappears completely – if they do not opt for the joint-and-survivor annuity.

In addition, the husbands of women who eventually become widowed report poor health going back as many as 10 years before their death.[4] Bad health is associated with a reduced ability to work; hence, lower household earnings are common prior to retirement. Similarly, the household often faces higher than average medical costs over many years (not just near the end of life), depleting savings and further contributing to poverty in widowhood.[5]

Not surprisingly, then, an analysis of older married couples over a 12-year period found that, even before the death of the husband, the couple was significantly poorer (see Figure 3). This pattern reflects the fact that the eventually widowed couples in the sample have significantly fewer years of education than the continuously married couples. The strong relationship between mortality, education, and income means that women in the least financially prepared households are at the greatest risk of widowhood.[6]

Figure 3. Median Income-to-Needs Ratio for Years Surrounding Widowhood, Women Ages 58 and Over, 1992-2004



Note: The income-to-needs ratio is the ratio of total family income relative to the poverty line.
Source: Karamcheva and Munnell (2007).

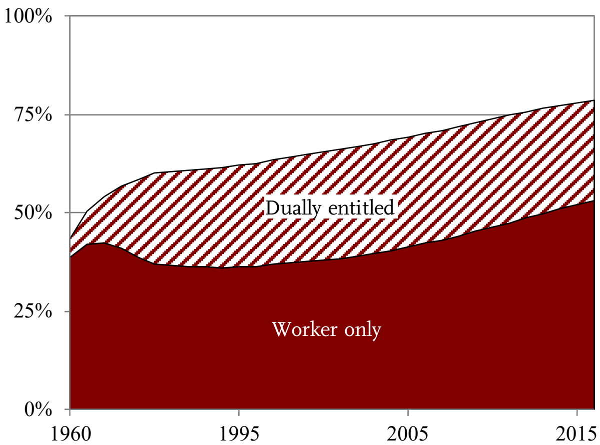
Social Security Widow Benefits Are Declining

While increasing education levels, greater labor force activity, and better default payouts for defined benefit pensions have improved widows' prospects, a decline in the widow's Social Security benefit relative to the couple's benefit has worked in the other direction. The reason for this decline is that an increasing number of women are qualifying for their own worker benefit.

Social Security benefits were designed in the 1930s when the husband was typically the breadwinner and the wife a homemaker. Although the family benefits – which were intended to provide socially adequate amounts – are not gender based, they have typically gone to women. The spousal benefit guarantees the wife a Primary Insurance Amount (PIA) – a benefit at her Full Retirement Age (FRA) – equal to half her husband's PIA. As a result, a single-earner couple receives 150 percent of the primary earner's benefit. The widow benefit guarantees a widow 100 percent of her husband's actual benefit, which is two-thirds of the couple's benefit.[7]

The single-earner couple, however, has become increasingly rare over time as more women have entered the labor market. Now, in most instances, the wife receives a benefit based at least in part on her own earnings (see Figure 4). If the wife's worker benefit exceeds the spousal or widow benefit, she receives the larger amount. If her worker benefit is lower, then she is "topped up" to the level of the spousal benefit. When the husband dies, the wife is entitled to a widow benefit that is the larger of her own benefit or her husband's benefit.[8]

Figure 4. Basis of Social Security Entitlement for Women Ages 62 and Over, 1960-2016

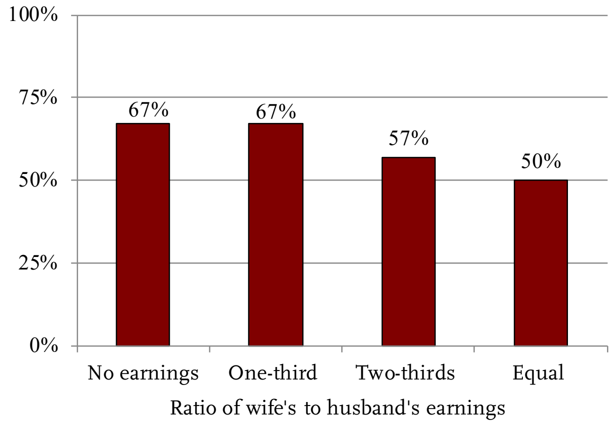


Source: U.S. Social Security Administration (2018a).

In a single-earner couple, an average earner receives a benefit of 40 percent of pre-retirement earnings and his wife receives a benefit of 20 percent of his pre-retirement earnings. When the husband dies, the widow receives her husband's benefit, which equals 67 percent (40 percent/60 percent) of the couple's combined benefit when they were both alive (see Figure 5). At the other extreme, if a husband and wife earn the same amount and each receives 40 percent of their pre-retirement earnings, the widow receives a benefit of 50 percent of the couple's benefit (40 percent/80 percent). Thus, after the husband dies, the benefit will be cut by either one-third or one-half depending on the couple's earnings record.

While benefits for the surviving spouse may decline by as much as 50 percent, she is unlikely to experience a commensurate reduction in household expenditures. To compare the consumption needs of a single person to those of a couple, analysts use "equivalency scales." Due to economies of scale, a two-person household does not need twice the resources of a one-person household. The Organisa-

Figure 5. Widow Benefit as a Percentage of Couple's Combined Benefit, by Ratio of Wife's-to-Husband's Earnings



Note: This example assumes both spouses claim at the FRA and the husband's benefit replaces 40 percent of pre-retirement earnings.
Source: Authors' calculations.

tion for Economic Co-operation and Development assigns a value of 1.0 to the household head and 0.5 to each additional adult member, so the surviving spouse would need 67 percent (1.0/1.5) of the couple's benefit to maintain the same standard of living. The U.S. Census Bureau equivalency scale for constructing poverty measures assigns a value of 0.94 for a one-person household ages 65 and over and 1.19 for a two-person household, suggesting that the surviving spouse would need 79 percent (0.94/1.19) of the couple's benefit.

In addition to the potential for insufficient benefits, the current system also raises equity issues in that it provides more benefits relative to payroll tax contributions to one-earner couples than two-earner couples.[9] To illustrate this difference, Table 1 (on the next page) compares benefits for three couples: 1) a one-earner couple with household earnings of $50,000; 2) a two-earner couple with $50,000 split evenly between the two spouses; and 3) a two-earner couple in which one spouse earns $50,000 and the other spouse earns half that amount. The table shows that the one-earner couple receives higher retirement and widow benefits than the two-earner couple with identical earnings and that the widow benefit received by the third couple is identical to that received by the one-earner couple (i.e., the wife's earnings do not increase the widow benefit).

Table 1. Benefits for Three Couples with Different Earnings Splits between Spouses

	Couple 1	Couple 2	Couple 3
Husband's earnings	$50,000	$25,000	$50,000
Wife's earnings	0	25,000	25,000
Total	50,000	50,000	75,000
Payroll taxes	3,100	3,100	4,650
Benefits			
Couple	2,655	2,240	2,890
Widow	1,770	1,120	1,770

Source: American Academy of Actuaries (2017).

Improving Widow Benefits

Armed with both adequacy and equity concerns, policy experts have repeatedly proposed improving the widow benefit. One popular idea is to increase the surviving spouse's benefit to 75 percent of the couple's combined monthly benefit when both spouses were alive.[10] For a one-earner couple, the widow benefit would increase from 67 percent to 75 percent of the couple's benefit. For a two-earner couple with similar earnings histories, the surviving spouse's benefit would increase from roughly 50 percent to 75 percent.

Some proposals for a 75-percent widow benefit would target the provision to lower-income households by capping the dollar amount, for example, at the amount received by a retiree with average earnings.[11] The estimated cost of this change over the 75-year time period used to assess Social Security's finances is 0.12 percent of taxable payroll. To cover this cost, proposal advocates suggest gradually reducing the spousal benefit from 50 percent to 33 percent of the husband's PIA.[12]

Targeting, Administration, and Offsets

As with all proposals, it is important to evaluate an enhanced widow benefit on three criteria: how effectively it would reach its target population of needy widows, its administrative feasibility, and its cost offsets.[13]

On the targeting side, as noted, proposed reforms typically limit the dollar amount of the 75-percent minimum benefit.[14] Research indicates that this approach would reduce poverty while effectively focusing the assistance on the widows who are most at risk.[15]

Regarding administrative feasibility, increasing the widow benefit does not raise any significant issues. The provision would simply require a change in the benefit formula for widows.

Offsetting the cost of a higher widow benefit by reducing the spousal benefit could, on balance, improve the equity between one-earner and two-earner couples and lead to more dually entitled wives qualifying for a retirement benefit based on their own work record.[16] However, some experts prefer an alternative offset due to concern that reducing the spousal benefit would hurt single-earner, low-income couples.[17] This alternative offset could differ for households above and below the average income. For higher-income couples, the increase in the widow benefit could be financed by reducing the benefits when both members of the couple are alive. Such a change would be cost neutral to Social Security.[18] For lower-income households, the increase in the widow benefit could be financed by changes elsewhere in the program.

Conclusion

With the increase in women's labor force participation, Social Security widow benefits have been declining as a share of the couples' benefits. At the same time, widows remain much more vulnerable to poverty than married couples. As a result, many have proposed boosting widow benefits. Proposals would typically cap the size of the increase – based on the benefit of an average earner – to target it more to those most in need. One way to fully offset the cost of an enhanced widow benefit is reducing spousal benefits, essentially shifting benefits from the period when both members of the couple are alive to the period when only one member is alive. Overall, boosting the widow benefit – while limiting the size of the increase for above-average earners – appears to offer a well-targeted way to help reduce poverty for this vulnerable group.

Endnotes

1 Women constitute the overwhelming share of the widowed population (nearly 80 percent according to U.S. Census data), so this *brief* focuses on widows (women) and not widowers (men).

2 For a detailed exploration of the factors behind the decline in widows' poverty, see Munnell, Sanzenbacher, and Zulkarnain (2018).

3 Divorced women who were married less than 10 years are not eligible for a widow benefit. Other benefit changes that could help reduce poverty risk include a caregiver credit (Munnell and Eschtruth, 2018) and an enhanced minimum benefit (Eschtruth and Munnell, 2018 forthcoming).

4 Karamcheva and Munnell (2007).

5 McGarry and Schoeni (2005) conclude that large out-of-pocket medical expenditures around the time of death can be an alternative explanation for the high rates of poverty in widowhood.

6 Sevak, Weir, and Willis (2003/2004).

7 Spousal and widow benefits are reduced if they are claimed prior to the recipient's FRA. Spousal benefits are also available only when the husband has claimed. When first introduced in 1939, the widow benefit provided the survivor with 75 percent of the husband's PIA. It was raised to 82.5 percent in 1961 and 100 percent in 1972.

8 For more on the changing labor force role of women and Social Security benefits, see Butrica and Smith (2012), Favreault and Steuerle (2007), Weaver (2010), Iams and Tamborini (2012), Tamborini and Whitman (2007), and Wu et al. (2013).

9 For more detail, see Shelton and Nuschler (2012), Iams, Reznik, and Tamborini (2009), and Herd (2004).

10 Proposals include Estes, O'Neill, and Hartmann (2012), Weller (2010), Entmacher (2009), Anzick and Weaver (2001), Smeeding, Estes, and Glasse (1999), Holden and Zick (1998), and Hurd and Wise (1991). A different type of proposal would not specifically target widows, but would help them by increasing benefits for those who reach age 85 (Munnell and Eschtruth, 2018 forthcoming).

11 Diamond and Orszag (2004); and President's Commission to Strengthen Social Security (2001).

12 Such a reduction in the spousal benefit would largely offset the cost of enhancing the widow benefit over the full 75-year period and would more than offset it in the 75th year according to the estimates of the Social Security actuaries (U.S. Social Security Administration 2018b). This offset was favored by a majority of the members of the 1994-1996 Advisory Council on Social Security (1997) and was also suggested by Reno and Lavery (2009).

13 Favreault, Sammartino, and Steuerle (2002) evaluate different proposals and their distributional and cost effects.

14 For a recent legislative example, see a 2017 bill introduced by Representative Al Lawson (D-FL).

15 See Favreault and Steuerle (2007) for a summary of this literature.

16 Favreault and Steuerle (2007).

17 Shelton and Nuschler (2012).

18 See Diamond and Orszag (2004), who also point out that – over a 75-year horizon – the benefit reduction for the couple would precede the benefit increase for the survivor and, thus, would improve the program's financial balance. Favreault and Steuerle (2007), Burkhauser and Smeeding (1994), and Iams and Sandell (1998) have also addressed the idea of a benefit reduction for the couple to finance a widow benefit boost.

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