SOCIAL SECURITY REFORM: IMPLICATIONS FOR WOMEN

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ABSTRACT

Despite recent economic gains for women, a substantial gender gap in financial security during old age remains, making women more dependent than men upon Social Security. This paper discusses the important role that Social Security plays in providing for women's economic security. It also analyzes the implications for women of several proposed changes in Social Security policy, including the call for the partial privatization of Social Security via the introduction of individual accounts. Many of the proposals would have the effect of asking women, particularly low-income women, to shoulder a disproportionate share of the risks and burdens associated with the changes.

Keywords: Social Security, privatization, women, economic status

SOCIAL SECURITY REFORM: IMPLICATIONS FOR WOMEN

Women's increasing labor force participation, rising wages, and greater pension coverage all contribute to the improving economic status of women and point to a more prosperous old age for the millions of women who in the past could look forward to little retirement income beyond a Social Security benefit based on their spouses' wages. In the years ahead, a growing number of women will become eligible for benefits from private pensions and Social Security based on their own earnings, and many will possess savings and investments to supplement those benefits (Rix & Williamson, 1998; Johnson, 1999).

Between 1972 and 1993, the percent of women in full-time, private sector employment covered by pensions increased from 38 to 48 percent (U.S. Department of Labor, 1994, Table B16). Nonetheless, because women are more likely than men to have discontinuous work histories, to be out of the labor force, and to be employed part-time, they often end up with less by way of pension benefits or assets at retirement. These differences in ability to accrue savings, which are likely to continue, contribute to the greater risk of poverty in old age for women. Older women have higher poverty rates than older men; nonmarried women have much higher rates than married women; minority women are much more likely to be poor than white women; and women in very old age (85-plus) have a far greater risk of poverty than women in their 60s (See Table 1).

Despite incentives and pressure from the government and employers to make workers more responsible for their own retirement income, Social Security will remain the primary source of income for millions of elderly women in the years ahead. For this reason, the consequences of various Social Security reform proposals for women warrant close attention. One goal of this article is to examine the importance of Social Security to women today and in the decades ahead. Another is to assess the potential impact on women of recent proposals for Social Security reform. Many of these proposals indirectly call for benefit cuts that would be greater for women than men, further increasing the already greater economic vulnerability of women; but some would have the reverse effect, reducing the gender gap. The introduction of individually-owned defined contribution accounts (the so-called partial privatization of Social Security) could have a particularly adverse impact on women.

Table 1

Poverty Rates for Selected Groups: 1996

Group	Percent Poor
Persons aged 65 and over	10.8
Persons under age 18	20.5
Women aged 65 and over	13.6
Men aged 65 and over	6.8
Married women aged 65 and over	5.2
Nonmarried women aged 65 and over	19.5
White women aged 65 and over	12.1
Black women aged 65 and over	29.8
Hispanic women aged 65 and over	27.7
Women aged 60-64	13.2
Women aged 65-69	10.9
Women aged 85 and over	19.9

Source: Lamison-White (1997, Table 2); unpublished AARP- Public Policy Institute data; unpublished data from the March 1997 Current Population Survey

SOCIAL SECURITY AND THE ECONOMIC STATUS OF WOMEN

More than 90 percent of women aged 65 and older are Social Security recipients. Social Security benefits account for more than half of the income of nonmarried women in this age group and 36 percent of the income of married couples (U.S. Social Security Administration, 1998b, Table VII.2). Social Security is the sole source of income for more than 750,000 aged married couples and over 2.5 million nonmarried elderly women (U.S. Social Security Administration, 1998b, Table VI.B.2). In 1996, only 18 percent of elderly women received income from annuities or private pensions. Many more women (62 percent) had some asset income, but asset income is highly skewed, and the typical retired woman gets little income from assets (see U.S. Social Security Administration, 1998b, Tables I.8 and V.D.1).

As their economic status continues to improve, women will come to have more retirement income from sources other than Social Security. Thirty years ago, the women who are today aged 55 to 64 were 25 to 34 and had a labor force participation rate of 41 percent. Today, women between the ages of 25 and 34 have a participation rate of 75 percent (Ross, 1997), which is one reason that some analysts project that in 2030, seven out of ten boomer females will have assets and pension income in addition to Social Security (AARP, 1994, Table 10). This would be a sharp increase from 1994, when only one percent of aged nonmarried women and five percent of aged married couples received retirement benefits from at least three different sources (Grad, 1996, Table I.6).

Despite the substantial economic gains women have made in recent decades, the importance of Social Security to older households does not appear to have declined. In fact, in

1996, Social Security benefits made up a larger part of the household income of nonmarried women and married couples than it did in 1976 (Grad & Foster, 1979, Table 28; U.S. Social Security Administration, 1998b, Table VII.2). Moreover, women are likely to continue to be heavily dependent upon Social Security for the next several decades. Many women will not have pensions, while the pensions of many others will be based on low wages and short work histories, going to women who in the past would not have qualified for them (U.S. General Accounting Office, 1997, p. 7). Hence, the pension benefits for many women will be modest.

WOMEN AND SOCIAL SECURITY BENEFITS

A woman generally becomes eligible for Social Security in one of three ways: (1) based on her own earnings record and work history; (2) based on the work history and earnings record of her spouse; or (3) based on a combination of the two.[1] Women with 40 quarters (ten years) of covered employment are entitled to full retired worker benefits at age 65 and to actuarially reduced benefits at age 62. For workers turning age 62 in 2000, the age of eligibility for full Social Security benefits will gradually rise to 67. Actuarially reduced benefits will still be available at 62, but they will be lower than they are under present law.

Even if never active in the paid labor force, a married woman of retirement age is eligible for a spousal benefit based on her husband's work history and earnings record. Some view this as a marriage bonus benefiting many women including stay-at-home wives, who are often eligible for higher Social Security benefits than are low-income working women who have

[1] Social Security eligibility provisions are gender neutral. As the focus of this paper is on women, we typically refer to women in the text; however, we could also have said, for example, that men can become eligible in these three ways.

contributed to the system for decades. In the absence of a benefit based on her own work history, a married woman's benefit comes to half of her husband's retired worker benefit. If it is taken prior to the time both spouses are age 65, the benefit is actuarially reduced. A divorced woman of retirement age who had been married to her ex-husband for at least ten years is also eligible for a spousal benefit. Widows get a Social Security benefit equal to the larger of either their own retired worker benefit, assuming they are eligible for one, or their deceased spouse's full benefit. The same holds for a divorced woman who had been married to the now deceased worker for at least ten years. As a result, a divorced woman often finds that her benefit increases upon the death of her former husband.

With increasing frequency, women find that they are eligible for a worker benefit based on their own work histories, but that benefit is often less than half of their current or former husband's worker benefit. These women are described as "dually entitled"; that is, they are eligible for Social Security based on their own work history and on their husband’s work history. They do not, however, collect both benefits. Rather, they receive their own retired worker benefit and a supplement that tops that benefit up to the level of their spousal benefit. In this strictly technical sense, they do receive credit for their payroll taxes; but most such women are very aware that the actual benefit they collect is no larger than it would have been had they never contributed to Social Security. There is, however, one advantage they do have over nonworkers, eligibility for disability benefits.

The supplement that a dually entitled spouse is eligible for over and above what she would be due based on her own earnings record alone is in effect a marriage bonus that is not available to either single men or women. This ends up being a sizable bonus for some women with high earnings husbands.

In recent decades, there has been a sharp increase in the proportion of women Social Security beneficiaries who are dually entitled. Between 1960 and 1997, the proportion increased from 4.6 percent to 26.7 percent (Table 2). During this same time period, there was a substantial increase in the proportion dually entitled as widows, from 2.1 percent in 1960 to 15.0 percent in 1997 (Table 2). It is also of note that in 1960 about the same percentage were dually entitled as wives as widows (2.4 percent vs. 2.1 percent), but in 1997 more were dually entitled as widows than wives (15.0 percent vs. 11.7 percent) (Table 2).

Table 2

Women Social Security Beneficiaries Aged 62 or Older, by Type of Entitlement: 1960, 1980, and 1997 (in percent)

Entitlement	**1960**	**1980**	**1997**
Retired Worker	43.3	56.9	63.6
Worker-only	38.7	41.0	36.9
Dually entitled	4.6	15.9	26.7
Wife's benefit	2.4	6.2	11.7
Widow's benefit	2.1	9.6	15.0
Wife/widow only	56.7	43.1	36.4
Wife's benefit only	32.8	17.6	13.7
Widow's benefit only	23.4	25.4	23.6

Source: U.S. Social Security Administration (1998a: Table 5A.14).

According to one recent study, the proportion of wives who get benefits as retired workers only will increase from about one-third of those retiring in 1995 to almost 60 percent in 2015, and thus more wives will be receiving retirement benefits based on their own work histories while their husbands are alive (Sandell and Iams, 1996). But if they outlive their husband, and a majority of women do, most will find that the survivor benefit based on their deceased husband's work history is greater than their own retired worker benefit. During the same time period, Sandell and Iams project that the number of widows getting benefits based entirely on their own work histories will increase from 8 to 19 percent, the majority of whom will be dually entitled. As a result of women's increased labor force participation, future married couples will have higher Social Security benefits, but widows' benefits will not show much improvement.

Between 1960 and 1997, despite the rising labor force participation of women, there was no corresponding increase in the percent of women eligible for what are called "worker-only" benefits (i.e., a retirement benefit based entirely on their own work history because it is greater than one-half of the benefit due their spouse). In fact, the proportion of women entitled to worker-only benefits actually decreased slightly from 38.7 percent to 36.9 percent. However, as more women enter and remain in the workforce, a growing number are eligible to collect worker benefits, that is, either worker-only or dually entitled. For example, in 1960, 43.3 percent of women qualified for worker benefits. That number had grown to 63.6 percent by 1997 (See Table 2). In terms of Social Security benefits, women today are also less "dependent" on their spouses. The decline from 56.7 percent in 1960 to 36.4 percent in 1997 in the proportion of women who receive wife/widow only benefits is evidence of this (Table 2).

Despite the trend toward greater labor force participation among women in recent decades, many women remain economically dependent upon their husbands. Some are full-time homemakers, others are intermittently full- or part-time homemakers (Ferber, 1993). As is shown in Table 2, the most important Social Security gains have been in the dually entitled category.

Sex, marital status, and benefit adequacy. While the language of Social Security legislation is gender neutral, the effects of a number of its provisions are not, due to gender differences in income distribution, age distribution, and marital status. There are many ways in which Social Security is particularly beneficial to women (Porter, Larin, & Primus, 1999). But some provisions do work more to the advantage of men. For example, retired worker benefits are based on the 35 best years of earnings (out of 40 years). According to a recent U.S. General Accounting Office report, about 60 percent of men aged 62 have at least 35 years of covered earnings; the comparable figure for women is only 20 percent (Ross, 1997, p. 3). If a worker has fewer than 35 years of covered earnings, a zero is averaged into the benefit calculation for each of those years. This has the effect of reducing benefits for many women. While our focus is on the impact this provision has on women, it is of note that this provision has an adverse impact on male workers with irregular work histories as well.

The goal of benefit adequacy (providing a standard of living that will keep most covered workers out of poverty) was central to the original Social Security legislation, as it was to many of the changes to the program made since then (Steuerle & Bakija, 1994, pp. 15-16), although individual equity (giving participants a fair return on their contributions) was also viewed as important. The 1939 amendments to the Social Security Act, which added benefits for spouses and children that were not tied to their work records, went a long way toward transforming what had been a worker protection program into a family protection program (Ball, 1988, p. 25).

The 1939 amendments restructured the program in such a way that it came to pay higher overall benefits to the single-earner couple than the two-earner couple with the same earnings. Two couples might pay the same amount in Social Security taxes, but because of the spousal benefit, the single-earner couple typically receives more in benefits than two-earner couples with similar total earnings. Not only does this inequity result in differential benefits while both partners are alive, it also has economic implications for widowhood, as the survivor (generally a wife) of a two-earner couple receives a lower benefit than the survivor of a single-earner couple with the same total earnings record. While it is true that household expenses generally decline with the death of a husband, the decrease is generally much less than the drop in income (Rappaport, 1997, p. 35).

PROVISIONS PROTECTING WOMEN

Gender differences in work histories and earnings result in a substantial gender gap in Social Security benefits. In 1996, the average monthly Social Security benefit for retired female workers was $662; for the average male worker, it was $861 (U.S. Social Security Administration, 1998a, Table 5.A1). Contributing to this gap is the fact that women typically earn less than men, are more likely to work part-time, and spend fewer years in the labor force. However, the gap might well be larger were it not for a number of Social Security provisions that tend to work to the advantage of women.

No longevity penalty for women. Social Security has a disproportionately positive impact on women because it ignores gender when computing benefits. Retired worker benefits will be the same for men and women with identical wage and work histories, even though women's longer life expectancy means that they will receive benefits for a longer period of time. In the private sector, sellers of annuities often take gender differences in life expectancy into consideration, which results in lower monthly benefits for women.

Predictability of benefits. Social Security is a defined benefit pension, which pays benefits based on a formula that enables workers to estimate their benefits well in advance of retirement. The government assumes the risk of ensuring the promised benefits are paid. There is no comparable guarantee for the increasing proportion of private pensions that are structured as defined contribution schemes. The eventual benefits in a defined contribution plan depend on the amount contributed and the market returns on those contributions. Retirement benefits are more difficult to predict as they are vulnerable to bad investment decisions and shifts in financial markets.

Benefit predictability, which enables people to plan better for retirement, is of particular importance to low-wage workers and thus to women. Such workers are less likely to have sizable assets at retirement that could serve as a cushion in the event that pension benefits were not paid or were less than needed or anticipated.

Exhausting and outliving benefits. Social Security beneficiaries cannot outlive their pensions. In the first place, workers cannot cash out their contributions before retirement. In the second place, they cannot opt for a lump-sum payment at retirement. In addition, once they start collecting Social Security, they can count on continuing to collect inflation-adjusted benefits until they die. In contrast, defined contribution schemes often allow covered workers to cash out their benefits before retirement or to arrange a schedule of payments other than a lifetime annuity. Some private pension plans permit workers to take their pension in the form of a lump sum at retirement; others allow phased withdrawals over a number of years (often fewer years than the person will live). It is more common for women than men to cash out of a pension plan prior to retirement, a decision that reduces pension size and coverage during retirement (Korczyk, 1996).

While life expectancies for men and women are increasing, both at birth and at age 65, it is very likely that well into the future women will continue to live longer than men. A consequence is that, on average, women will be dependent on their retirement pensions longer than will men. This is one reason that the defined benefit Social Security pension with its inflation protection is so important to women, particularly low-income women. Few private sector annuities are automatically indexed to inflation.

Spousal benefits. The vast majority of recipients of spousal benefits are women, as are the dually entitled (U.S. Social Security Administration, 1998a, Tables 5.A1 and 5.G2). Not surprisingly, the issues surrounding spousal benefit and dual entitlement are thus considered women's issues (U. S. General Accounting Office, 1996, p. 48).

Benefit formula. The formula used to compute a worker's Social Security benefit favors low-wage workers by replacing a larger proportion of wages for workers at the low end of the earnings distribution. Because so many women are low-wage workers, this weighted benefit formula, which is not found with private pensions, is especially important to them.

SOCIAL SECURITY: FUTURE PROSPECTS

Over the next decade or so, the Social Security system will take in more money than it pays out, contributing to a substantial increase in the size of the system's trust funds. However, this favorable situation will not continue, and over the long-term (defined as 75 years), the system is not in actuarial balance. If current trends continue, benefit expenditures will start to exceed payroll tax contributions in 2014, and the trust fund reserves will be exhausted in 2034. If no changes are made, Social Security could presumably pay full benefits until 2034. At that point, revenues would cover about 71 percent of expenditures. More likely, any benefit reductions made in 2034 will be less than this due to policy changes that will have been enacted long before then.

According to the 1999 Social Security Board of Trustees, Social Security could be brought into balance with an increase of about 2.1 percentage points in the payroll tax (with the employer and the employee each paying half), a substantial cut in benefits, or some combination of the two (Board of Trustees, 1999). A wide variety of reforms have been proposed, most of which involve a combination of tax increases and benefit cuts. The tax increases and benefit cuts, however, are not always obvious since they are often the indirect consequence of some other change, such as increasing the age of eligibility for full retirement benefits.

While the proposals to restore long-term solvency to the Social Security system vary considerably in their specific recommendations, they are really of three general types: those that aim to maintain the system largely as a social insurance program with a defined benefit pension that redistributes income from higher to lower earners, those that would partially privatize the system by introducing defined contribution individual accounts, and those that are hybrids (e.g., a voluntary individual account on top of a defined benefit pension). Although interest in partially privatizing Social Security preceded the report of the 1994-1996 Advisory Council on Social Security (1997), that report did a great deal to legitimize the privatization option. Since 1997, the debate has been strongly influenced by, though it has moved beyond, the Council's report.[2]

There have been many new Social Security reform proposals in recent years,[3] each of which could be analyzed in terms of its impact on women. Given the frequency with which new proposals appear, any effort to analyze all of them would quickly become unwieldy. Thus, our focus in the rest of this article is on the generic issue of individual accounts, the introduction of which has potentially enormous implications for women. We also discuss a number of more modest but still significant changes appearing in many of the reform packages that stand to have a disproportionate impact on women.

[2] For a useful summary of several of the more recent proposals, see Olsen and Baylyff (1998). They describe proposals by Senators Daniel Patrick Moynihan (D-NY), Judd Gregg (R-NH), and William Roth (R-DE), as well as those of Representatives Nick Smith (R-MI), John Edward Porter (R-IL), and Mark Sanford (R-SC). Among the proposals from academic economists have been those by Laurence Kotlikoff (1998), Martin Feldstein (1998), and Young-Ping Chen (1998).

[3] For summaries and comparisons among many of the most recent proposals, see Century Foundation (1998), Thompson (1999), and Rosenbaum (1999).

THE IMPACT OF PROPOSED POLICY CHANGES ON WOMEN

Although many men would be affected by any change to Social Security, reform of the Social Security program is very much a women's issue. While most of the reform proposals proffered to date have had, as a common goal, solving Social Security's funding problem for the foreseeable future, they differ considerably in how they would do that; as a result they also differ considerably with respect to their likely impact on women. Many of the proposed changes would adversely affect women, a few would benefit them, and several might come close to being gender neutral.

Most recent reform packages that would partially privatize Social Security would do so by introducing defined contribution individual accounts. Accounts of this type are likely to increase benefits to high-wage earners; however, they could lower benefits to many low-wage earners. Because women on average earn less than men, partial privatization could harm more women than it benefits; although affluent women would likely be better off (Rappaport, 1999b).

Under the reform proposals seeking to change Social Security as little as possible (e.g., Ball, 1999), women would generally fare much as they do today. However, even plans with this goal tend to call for some policy changes that would disproportionately burden women. For example, the so-called "Maintain Benefits" plan outlined by the Advisory Council on Social Security (1997) suggests increasing the benefit computation period from 35 to 38 years as part of a strategy for bringing the system into balance in the years ahead. As we show below, a change of this type amounts to a benefit cut that would more adversely affect women than men.

Add-ons and Carve-outs. Several different types of proposals have been made that deal with the financing of individual accounts. One approach calls for "add-on" accounts that would be financed in some way that did not involve the diversion of a portion of the current Social Security tax. An example, illustrated by the Individual Accounts plan described by the Advisory Council on Social Security (1997), would increase the payroll tax by a few percentage points (proposals vary, but the increase is typically in the 1.5 to 2.0 percentage point range, to be paid by the employee alone), with the additional contribution being used to fund the new individual accounts. Another approach, which includes a proposal of Senator William Roth (1998), would use the projected budget surplus to fund such accounts.

The add-on accounts are designed to supplement the "basic pension," the defined benefit portion of Social Security, which would be cut under many proposals calling for add-ons. A concern is whether the resulting scheme (add-on plus reduced defined benefit) would maintain the adequacy of retirement income. Low-income women are very dependent on the defined benefit structure of the current scheme, and they would be less likely to accumulate substantial assets in the proposed new individual accounts than would affluent workers of either sex. In addition, regardless of what any add-on might provide during retirement, it would have the more immediate effect of reducing current consumption if financed by an increase in payroll taxes. For many low-income women, this would cause hardship.

However, depending in part on future trends in financial markets, it is possible that add-on accounts would not affect low-income women any more adversely than the combination of payroll tax increases and benefit cuts that would be needed to fund the system after 2034 were no policy changes made between now and then.

“Carve-out” individual accounts would be financed by redirecting a portion of the payroll tax currently being paid into the Social Security trust funds, as illustrated by the Personal Security Accounts (PSA) plan (Advisory Council on Social Security, 1997) and the recent Center for Strategic and International Studies (CSIS) (1999) plan. This approach could put low-income women at greater risk than an add-on because these women would most likely lose some of the protection they currently enjoy due to the redistributive nature of the payout formula associated with Social Security as currently structured. It is likely that low- and middle-income women would be more adversely affected by carve-out plans than would high-income women (Williamson 1997b, p. 98). However, if as in the case of the CSIS plan, a generous minimum benefit is included, any adverse redistributive effects could be greatly reduced.

Voluntary Individual Accounts. While most individual accounts proposals require participation, some would make the accounts voluntary. Senator Daniel Patrick Moynihan (1998) has called for a two percentage point cut in the current Social Security payroll tax for the next several years (followed eventually by a substantial payroll tax increase). Covered workers could elect to take half of this amount in the form of an increase in take-home pay or place the full amount in a tax-sheltered individual account. Robert Ball (Century Foundation, 1998; Thompson, 1999) has proposed voluntary supplementary retirement accounts administered by the government in a way similar to that proposed for the mandatory retirement accounts described in the 1997 Advisory Council’s Individual Accounts plan. Lower-income workers have less disposable income; hence, most of those who would elect to make contributions to voluntary individual accounts in a Moynihan or Ball plan would likely be higher-income workers and therefore disproportionately male. Were this to happen, the gap between men and women with respect to retirement income would be widened.

In his 1999 State of the Union Address, President Clinton proposed what he referred to as USA accounts (Rosenbaum, 1999). The final version of the Clinton proposal sent to Congress in October of 1999 did not include USA accounts or any investment of the Social Security Trust Funds in the stock market (Sperling, 1999), but the original proposal did receive a great deal of attention, and it does illustrate some policy options that may be included in future Social Security reform proposals.

Clinton's original proposal called for the creation of voluntary individual accounts separate from the Social Security system. It was structured so as to exclude affluent workers and provide government-financed economic incentives for low- and moderate-income workers to make contributions to such accounts, but participation was to be voluntary. Given the evidence that very few low-income workers currently contribute to IRA accounts, it is reasonable to conclude that the number of people participating in these "USA accounts" would also have been quite modest. The higher the upper income limit for eligibility, the more who would participate in such a scheme, but any such increase would also decrease the proportion of female participants, due to sex differences in wage levels. At the lowest income levels, no matching funds were called for from the worker. This provision might provide close to full coverage for all employed workers, male or female, at the very low end of the income distribution.

Budget Surplus Financed Individual Accounts. Several proposals based on the reforms suggested by Martin Feldstein (1998) call for the creation of individual accounts purchased with tax credits and paid for using the projected federal budget surplus over the next several years. At retirement, a worker would be required to purchase an annuity with this account. Part of the annuity income would be used to replace a portion of the Social Security defined benefit pension that would otherwise have been paid. This would have the effect of reducing the perceived "return" on Social Security contributions. If this approach worked as promised by Feldstein, both men and women would come out ahead relative to their currently projected Social Security benefits (Feldstein & Samwick, 1998; Feldstein, 1998).

However, the scheme might end up being a Trojan horse. The budget surplus used to fund these accounts is projected to vanish in about 2014. Nevertheless, by then the concept of individual accounts would be well established, so there could well be strong support, particularly among more affluent workers, to continue government funding of individual accounts. To do this, however, might well require cuts in the defined benefit portion of the Social Security pension, cuts that would disproportionately harm women. The Feldstein approach could also undercut political support, particularly among middle- and upper-income workers (Munnell, 1999), for the defined benefit component of Social Security that many women workers depend upon. This could occur if middle- and upper-income workers were to become very interested in payroll tax funding of individual accounts and were to lose interest in the traditional social insurance based component that other income groups are much more dependent upon.

Market Risk, Risk Taking, and Political Risk. With the introduction of individual accounts, women (as well as men) would be vulnerable to market risks. Affluent women would generally come out ahead relative to how they fare under Social Security today. However, individual accounts pose substantial risks for persons of limited means. Low-income women tend to have less education and less access to good investment advice, but more importantly, they would be less able to weather a substantial and prolonged downturn in financial markets.

The risk aspect of individual accounts proposals deserves much more attention than it has received. The U.S. stock market has done so well for so many years that partial privatization has generated considerable interest. However, the advantages of privatization have received far more attention than the disadvantages. We need to think long and hard before asking moderate- and low-wage workers, a segment of the population that includes many women, to accept the proposed change in level of risk. While many advocates of privatization claim that all workers, even low-wage workers, would be better off with privatization (Beard, 1996), some do admit that such proposals would expose low-wage workers to the risk of substantially lower benefits than they would receive under current law (Goodfellow & Schieber, 1997).

Although a few studies (Clark, et al., 1998; Clark, 1999) suggest otherwise, the predominance of the evidence indicates that women tend to be more conservative investors than men (Hinz, McCarthy, & Turner, 1997; Shirley & Spiegler, 1998; U.S. General Accounting Office, 1999). Consequently, when comparisons are made between men and women with similar earnings and savings histories, women tend to end up with less in their individual accounts (Ross, 1997; Johnson, 1999). If, in the future, women continue to be more risk adverse investors, this is likely to hurt them over the long run. Though hardly much comfort, this same investment behavior could also cushion the impact of a major market correction in the period just prior to retirement. Recent research raises questions about women's financial knowledge and experience, factors that could result in unwise investment decisions (National Center on Women and Aging, 1998), but there are also some studies suggesting that women are no more likely than men to invest their pension assets unwisely (Mitchell, 1999).

Under two-tier individual accounts schemes, where there is a basic defined benefit pension as the first tier and the individual account as the second tier, a woman who had worked long enough to qualify for Social Security benefits would be eligible for a tier 1 benefit, but this benefit would likely be substantially below current projections for the average woman's retirement benefit under the present system. Some retirees would be able to make up the difference as a result of wise or lucky investment decisions made in connection with their individual accounts, but many would not. In the somewhat unlikely event that a two-tier scheme calling for a generous minimum benefit were enacted, it is possible that low-income women would do as well as they are projected to do assuming no change in the system until 2034.

Many analysts have commented on the political risks associated with the current Social Security scheme: Congress could, for example, always cut benefits in the future. Still, Thomas Jones (1996, p. 5), a member of the 1994-1996 Social Security Advisory Council, believes the risk that pre-retirement access to individual account assets might be granted would be even greater. He is also concerned that once the tier 1 benefit is separated from the individual account benefit, support for that tier 1 benefit will erode. Were this to happen, it would have adverse consequences for women and low-wage workers more generally.

Advocates of individual accounts frequently argue that most, if not all, workers would do better with private sector accounts than they do with Social Security as currently structured (Beard, 1996). However, as the interest paid on the bonds in the trust funds is very close to market rates for conservative bonds, doing better would involve assuming the greater risk associated with equity investments. To the extent that workers were given investment choices involving different asset classes (stocks, bonds, etc.), an increase in income inequality among those within the same cohort would be expected. Furthermore, some cohorts would do much better than others depending on the status of financial markets when they retired. The fact that the average long-run return on equities seems to be close to 10 percent does not mean that all or even most investors will average 10 percent. Some will average much more; some will average much less; and some may lose a substantial fraction of their assets.

Between 1926 and 1994, the average return on the S&P 500 was 10.2 percent (6.9 percent after adjusting for inflation) (Levine & Levine, 1996, p. 222). However, it has sometimes taken years to recover from a serious bear market. On September 3, 1929, the Dow Jones reached a level it did not see again until November 23, 1954. More recently, between January of 1973 and September of 1974, the market declined by 43 percent (or by 52 percent after adjusting for inflation); it did not return to its 1972 high for almost 10 years (Ibbotson & Brinson, 1993, p. 162). The phenomenal bull market over the past 20 years is not typical of the last 75 years, and may not be typical of the next 75 years, especially if growth rates turn out to be lower than in past years (Williamson 1997a, p. 565).

Annuitization and Ownership Issues. Some individual accounts proposals would require that assets accumulated in individual accounts be used to purchase an annuity. Others, such as the PSA plan outlined by the Advisory Council on Social Security (1997), would not. Women would be adversely affected by personal account proposals that do not require the purchase of an annuity (U.S. General Accounting Office, 1999). Without the protection of an annuity, many women would be vulnerable to outliving their benefits.

Even in situations where men and women had the same balance in their individual accounts at retirement, they would often end up with different monthly benefits when they purchased annuities in the private sector. Because women have longer life expectancies, they would often get lower monthly benefits than men (U.S. General Accounting Office, 1999). Over their lifetimes, women would generally get as much as men from original annuity investments of the same size, despite the lower monthly benefits, but this would be a small consolation when monthly bills were being paid.

Individual accounts proposals raise important questions about the ownership of accumulations in the accounts of married workers. A worker might not be under any obligation at retirement to take a spouse's interests into consideration when deciding what to do with the assets (Shirley & Spiegler, 1998). There might be no requirement that it be used to purchase an annuity. If the money could be taken as a lump sum and used in ways that ignore the economic needs of the spouse, the consequences for women would be extremely adverse.

The assets in an individual account could be split at the time of divorce and would thus allow for a certain degree of "horizontal equity" (treating spouses in the same way). This earnings-sharing approach is viewed by some as a way to protect women in a world of individual accounts (Shirley and Spiegler, 1998). But, as Steuerle (1999) points out, such a division might not adequately take into account possible differences in other resources that are harder to calculate, such as investments during marriage in human capital (i.e., education of one spouse) and social capital (i.e., valuable long-term business contacts for one spouse).

Divorced women might be forced to rely on the divorce settlement to share the accumulation in a spouse’s individual account. Under the Advisory Council’s Individual Accounts proposal, this might be the only way a woman would have access to assets in her former husband’s account while he was still living (Williamson 1997b, p. 103). When he died, she would become eligible for half the annuity benefit derived from his individual account or half of the assets in the account if he had not yet retired. If there are no requirements that accumulations be annuitized, as is the case with the Advisory Council’s Personal Security Accounts proposal, a divorced spouse could not count on any benefit from the former spouse.

There is, however, one group of divorced women who might benefit from schemes that call for the introduction of individual accounts. A woman who is divorced prior to ten years of marriage is not eligible for any Social Security benefits based on her former husband's earnings history. Were an individual accounts scheme in place, some of these women could have access to a portion of the funds in their husband's individual account as part of the divorce settlement.

Administrative Costs. Because women tend to earn less and spend more time out of the paid labor force, they would be expected to have smaller balances in the individual accounts associated with the various partially-privatized Social Security schemes proposed for the United States. The evidence from other countries such as Chile (Diamond, 1996) and the United

Kingdom (Liu, 1999; Ward, 1996), suggests that administrative costs tend to be higher for schemes based on individual accounts than for traditional defined benefit social insurance schemes. Furthermore, they tend to be particularly high for women, in large part because they are more likely to carry small balances in their accounts. According to one estimate in the United Kingdom, it costs approximately 20 percent of the value of yearly contributions to administer the individual accounts for those who select the personal pension option in contrast to about 1 percent for those who elect the traditional defined benefit public pension option (Crawford, 1997, p. 42).

Other Proposed Reforms. While the individual accounts are likely to have the most profound implications for women, there are other proposed changes that would also be likely to affect women more adversely than men. One proposal to help restore the solvency of the Social Security trust funds is an across-the-board cut in pension benefits. Such an approach would have a more negative impact on women than men due to their lower earnings levels and because women rely on Social Security for a greater share of their retirement income (Smeeding, Estes, & Glasse, 1999; U.S. General Accounting Office, 1999).

Women would also be disproportionately hurt by the proposal to increase the number of years used to compute pension benefits from 35 to 38. Of those who retire in 1999, it has been estimated that 57 percent of men, but only 15 percent of women will meet this criterion (Fierst, 1997, p. 137). Of those who will retire in 2020, perhaps only 30 percent of women as opposed to 60 percent of men would have the required 38 years (U.S. General Accounting

Office, 1999). A longer computation period would clearly reduce benefits substantially more for women than for men.

Some reform proposals call for changes in the way the annual cost-of-living adjustments (COLAs) are made in Social Security pensions. Many policymakers have proposed changes that would reduce the COLA adjustment by up to one percentage point per year (Moynihan, 1998; Center for Strategic and International Studies, 1999). Thus, if inflation were three percent using the current CPI index, the adjustment in Social Security benefits would be two percent rather than three percent under current legislation. Such a change would amount to a cut in the purchasing power of benefits. Moreover, the effect of this would compound over the years, with the greatest impact on those who live the longest after starting to collect pension benefits, that is, women.

While most of the attention in recent years has been on ways to reduce, not improve, Social Security benefits, there has been some agreement that something needs to be done to increase income adequacy for widows. A majority of members on the Social Security Advisory Council as well as a number of other policy analysts (Burkhauser & Smeeding, 1994; Sandell & Iams, 1997) favor a proposal to reduce the spousal benefit and use the savings to increase the survivors' benefit. One often-mentioned proposal for doing this would reduce the spousal benefit from the current 50 percent to 33 percent of the covered worker's benefit while at the same time increasing the survivor's benefit from 100 percent of the covered worker's benefit to 75 percent of the combined (husband and wife) benefits.

However, these changes would not make all survivors better off; for example, widows who had never been in the paid labor force would be no better off. In addition, the change would not help divorced or never-married women, two groups that are among the poorest elderly. Divorced women dependent on spousal benefits would actually be worse off as a result of this change, for they would only qualify for one-third of their former husband's benefit as opposed to one-half under current policy (Shaw, Zuckerman, & Hartman, 1998). Not many women collect benefits as divorced spouses, but those who do are generally needy (Weaver, 1997). With such a policy change, married couples would need to make do with less than under current policy when both were alive if one were eligible for the spousal benefit. For middle- and upper-income couples, this would not be a problem, but it could cause hardship for low-income couples. Another reason that this proposed change might not have the desired outcome is that some research indicates that, for women, a lifetime in poverty tends to be a more important determinant of poverty in old age than the loss of a spouse (Choudhury & Leonesio, 1997).

While many proposed changes to Social Security would deal with the projected future Social Security burden using reforms amounting to tax increases or benefit cuts disproportionately impacting women, there have been some proposals that would do the reverse, that is, shift some of the burden toward men. One of the most important examples of this is Senator Moynihan’s (1998) proposal to increase the cap on wages subjected to the payroll tax from the current (1999) $72,600 to $97,500. Only workers earning between $72,600 and $97,500 would be affected by this change, a wage range that is disproportionately male. Other proposals to raise the wage base have also been made (e.g., Reischauer, 1999); they are appealing to many reformers because they negatively affect only high-wage earners.

Several plans call for an increase in what is referred to as the normal retirement age, that is, the minimum age at which a full Social Security pension can be received. Currently the normal retirement age is 65, but it is scheduled to increase to age 67 by 2027. Some proposals call for increasing the retirement age to 68, others to 70. Some call for indexing a higher retirement age to future increases in life expectancy (Advisory Council on Social Security, 1997; Moynihan, 1998; Center for Strategic and International Studies, 1999). Any increase in the normal retirement age would add up to yet another form of benefit cut; that is, if pension benefits start at an older age, total lifetime benefits will be reduced relative to what they would have been without such an increase. Some experts argue that, to the extent that women rely more heavily on Social Security than do men, they stand to be hurt more by any increase in retirement age (Rappaport, 1999a). As the retirement age is increased, not only is there, in effect, a pension cut for covered workers, but there are also corresponding cuts in benefits to widows, spouses, and former spouses.

In assessing the likely impact of this change, it is important to note that women live longer than men and, as a result, any increase in the retirement age will reduce the lifetime benefits paid to men more than it will reduce the lifetime benefits paid to women. It is also relevant to note that this reform would affect younger women (who will be less vulnerable at retirement due to their stronger earnings histories) more than older women, as the change would be phased in gradually over several years. In short, the impact on women of increasing the normal age of retirement would be mixed. Those with low earnings, who were most dependent upon Social Security for retirement income, would feel the impact on their standard of living more than would those who are less dependent upon Social Security for retirement income.

However, it is also true that, on average, it would reduce the lifetime Social Security benefits more for men than women.

In addition to the reform proposals that would disproportionately harm women and those that would most likely benefit women, there have been a number that might well end up being relatively gender neutral in their impact. Among these, Rappaport (1999a) includes the proposals to: (1) extend Social Security coverage to all local and state government workers; (2) invest some of the Social Security trust fund in private financial markets; (3) tax Social Security pensions like private pension fund distributions; and (4) use a portion of the current budget surplus to indirectly benefit Social Security (by reducing the national debt).

CONCLUSION

Recent decades have witnessed a great improvement in the economic status of women, and it seems reasonable to expect this trend to continue. Nonetheless, a substantial gender gap in economic well-being will remain well into the future. Due to their greater economic vulnerability, longer life expectancy, and greater probability of being widowed in old age, women will continue to be more heavily dependent upon Social Security than men. For this reason they will be more vulnerable to changes in Social Security policy, particularly those that modify the spousal benefits so important to women and those that trim benefits that favor low- and middle-income workers.

The partial privatization of Social Security would very likely benefit well-to-do women, but it would tend to undercut the economic security of many middle- and low-income women. The shift from a defined benefit scheme to an alternative, making use of defined contribution individual accounts, would reduce the protections for women and low-wage workers that are built into Social Security as presently structured. If Social Security were privatized, market risk would increase; women would bear a disproportionate share of the burden associated with that risk due to their greater economic vulnerability.

Most recent plans for Social Security reform include some version of individual accounts. But, typically, it is other proposed changes in Social Security policy included in these plans that would be responsible for restoring actuarial balance to the Social Security system by closing most of the gap between projected pension receipts and outlays when the boomers retire. While the privatization issue is very important, a number of other proposed changes to the Social Security Act deserve more attention than they have received. Many of these other reforms would result in women being disproportionately affected by policy changes designed to deal with the projected Social Security burden.

Were we to introduce individual accounts, this change would signal a profound shift in Social Security philosophy, a major shift away from the traditional social insurance emphasis. Before such a change is made, the general public must be thoroughly informed about what could happen if the various reforms currently under consideration were enacted (Farkas & Johnson, 1997). Much is written about how things would work if the stock market were to move steadily up; far less is discussed about what would happen in the event of a prolonged severe bear market.

Before making any of the profound changes being proposed, further study of the potential distributional consequences of those changes is needed. Major shifts in legislation as fundamental to the economic security of Americans as Social Security must be preceded by thorough discussion about who stands to gain and who stands to be harmed by proposed reforms. Some of the recently proposed changes would shift the burden in the direction of men, but most would increase the relative burden on women. In the years ahead, Social Security's long-range financing problems will have to be addressed. It is likely that the final package of reforms will involve cuts, some of which will impact women more adversely than men. It is our contention that any sex differences in the likely impact of proposed cuts should be made explicit and thoroughly vetted in advance by scholars, policy makers, and advocates for workers, women, and older persons, among others. This is particularly important in the case of proposals that would increase the projected gender gap in Social Security benefit levels and those proposals that would adversely affect the already vulnerable position of low-income women.

Where do we go from here? When assessing the impact of Social Security reforms on women, it will be useful to ask what the impact is likely to be relative to a clearly specified baseline policy proposal. The baseline we would suggest is a policy calling for no change between now and 2034 (the date at which the Trust Fund surplus is currently projected to drop to zero) and then at that time closing the gap between revenues and pension benefits paid using a formula relying equally on a cut in pension benefits and an increase in the payroll tax (rather than just one or the other). This baseline proposal is an effort to get as close as possible to no change in current policy, but with the recognition that in the unlikely event nothing were done between now and then, something would have to be done in about 2034. The reason we need a baseline policy proposal for use when evaluating proposed reforms is that most analysts do not consider a continuation of current policy, with no changes now or in the future, a viable long-term policy alternative.

In addition, at least three questions need to be addressed when comparing alternative Social Security reform packages: (1) Will the benefits for middle- and particularly low-income women generally be more adequate or less adequate than those projected in connection with the baseline option?; (2) What proportion of middle- and particularly low-income women are likely to end up with benefits that would be more adequate or less adequate than those projected in connection with the baseline option in the event of a major correction in financial markets just prior to retirement?; and (3) In the long run, will the reform package increase or decrease the gender gap in the adequacy of pension provision?

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