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SOCIAL SECURITY SPOUSE AND SURVIVOR BENEFITS FOR THE MODERN FAMILY

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In the 1980s, many advocates proposed earnings sharing within Social Security as a means for addressing the ways that women's changing family roles would impact their retirement security. (By earnings sharing, we refer to plans in which a husband's and a wife's earnings records are combined and averaged over the duration of their marriage for the purposes of computing Social Security benefits. Typically this occurs in concert with reductions in—or elimination of—the program's spouse and survivor benefits.) They particularly sought to improve the status of the increasing number of divorced women entering middle life and retirement age. Such proposals also sought to address inequities in Social Security's current law benefit structure that advantage single-earner families relative to dual-earner families who pay the same amount in taxes. These proposals had a lot of appeal and resonance, given their complementarities with notions of marriage as a partnership in which spouses should fully share both incomes and obligations.

Analysts extensively examined possible consequences of earnings sharing alternatives in this period, including simulating dozens of alternative parameterizations (e.g., Congressional Budget Office 1986). Such proposals never gained sufficient political traction because of their difficult implementation and some of their (often unanticipated) distributional consequences. Ross and Upp (1993) concluded that the main reasons why these earnings sharing proposals eventually failed were inherent conflicts in the competing objectives, unintended consequences, costs, and lengthy transition periods. Surprisingly, more recent OASDI reform discussions have devoted proportionately less attention to the family benefits that the system provides, despite continuing and rapid changes in U.S. family life. In debates over personal accounts, many did mention the possible importance of earnings sharing for account balances, especially in the context of divorce (see, for example, Reno et al. 2005). These debates did not, however, typically extend to the context of updating the system's guaranteed benefits.

In this paper, we consider whether earnings sharing in Social Security may be worth another look. Changes over the past few decades may have alleviated some of the challenges to earnings sharing previously identified (e.g., transition periods may now be shorter, reducing costs). It is also possible that society has changed so much, with later and less frequent marriage (and remarriage), that the idea has simply passed its usefulness. We also consider whether other changes to Social Security's benefit computations, including features like caregiver credits, minimum benefits, and more modest changes to the spouse/survivor benefits, could similarly improve Social Security adequacy and horizontal equity, but without introducing the same level of complexity and transition difficulties as earnings sharing. Each proposal we examine entails substituting existing spouse (and, sometimes, all or parts of the survivor) benefits with mechanisms that are more explicit in acknowledging marital partnerships, more neutral with respect to marriage, and/or better targeted toward people who are economically vulnerable.

Our contribution to the literature is fourfold. First, we focus on packages of parameter changes. We combine Social Security equity and adequacy adjustments in the hope that we can improve the system's performance along both types of criteria simultaneously. Second, we update several prior studies to take into account more recent patterns in work and family life. This is especially important in the case of earnings sharing, where the most recent studies are about twenty years old. Third, many of the previous studies tend to describe a policy environment that is "add-on" in terms of Social Security expenditures relative to current law scheduled or do not allow expenditure-neutral comparisons across different types of proposals, especially considered in combination. We take a more realistic path of assuming approximate expenditure neutrality (relative to scheduled benefits at a point in time), thus paying for every change that we make. Finally, we also examine horizontal equity issues, often neglected in more recent literature that has focused on adequacy and redistribution.

Our objective is thus to present three types of systems that spend approximately the same amount as current law but improve Social Security's performance along criteria like poverty reduction and more equitable treatment of individuals/couples who pay the same amount of Social Security payroll tax. We use scheduled benefits as the base for comparison, but similar qualitative results apply to systems with reduced benefits. Our project uses DYNASIM3, the Urban Institute's dynamic microsimulation model of the U.S. population.

All three of our packages—earnings sharing, replacement of most of the spouse benefit with a minimum, and full spouse replacement with caregiver credits—reduced poverty modestly and made lifetime benefits more similar for couples paying the same amount in taxes relative to current law scheduled, though the earnings sharing proposal only reduced poverty when significant adjustments were made to the treatment of surviving spouses through a self-financed survivor benefit. The packages do reveal important tradeoffs among different beneficiary groups. The (crudely) cost-neutral environment in which we work underscores how improving adequacy for some groups has significant repercussions for others in an underfunded system.

The options that we have simulated are relatively stylized ones, meant primarily to illustrate some possible ways the Social Security system might evolve to meet the needs of today's increasingly diverse American families. The performance of all could be improved along our criteria through additional parameter adjustments. Our hope is to encourage renewed attention to examining these issues using methods that enable one to identify distributional effects and outcome measures that are based on objectives that improve the system's fairness and capacity to help those in need in retirement and disability.

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