YOUNG WIDOW(ER)S, SOCIAL SECURITY, AND MARRIAGE

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Abstract

The Social Security program, like the federal income tax system, is not marriage neutral. In the income tax literature, when a couple faces a higher (lower) tax bill as a married couple than as two single individuals, it is said that the couple, in effect, faces a marriage penalty (marriage subsidy). Similarly, provisions in Social Security lead to marriage subsidies or penalties. In this paper, we examine marriage penalties associated with Social Security's child-in-care benefits. These benefits are paid to widow(er)s who are caring for minor or disabled children. Benefits to the widow(er) terminate upon remarriage, giving rise to marriage penalties. We document the size of these penalties, discuss their likely effects on marriage decisions, and measure the cost of repealing the termination provision.

Introduction

Although there has been a recent policy focus on ending marriage penalties in the income tax system, the tax system is just one of many government policies that is not marriage neutral. For example, a large literature focuses on the marriage disincentives in traditional welfare programs like Aid to Families with Dependent Children (AFDC), or as it is now known, the Temporary Assistance to Needy Families (TANF) program. Concerns over how marriage disincentives might affect the well-being and development of children motivate this literature. Despite concerns regarding the well-being of children, researchers virtually ignore marriage penalties in the Social Security program for families with widow(er)s caring for minor or disabled children.[1] Social Security pays these benefits to each minor or disabled child and to the worker's widow(er) provided a child of the worker is in his or her care. Although remarriage has no effect on a child's eligibility for benefits, the benefit going directly to the widow(er) terminates if he or she remarries.

The child-in-care program affects a sizeable number of survivors. At the start of 2001, there were 240,000 persons entitled to child-in-care widow(er) benefits, with over 400,000 children in their care. There is a substantial amount of turnover in the entitled population, such that during the five-year period 1996 through 2000, about 500,000 widow(er)s were entitled at some point to benefits on the accounts of deceased workers.

[1] See Moffitt (1998) for a discussion of the AFDC literature and Alm, Dickert-Conlin, and Whittington (1999) for a discussion of the income tax literature. With regard to Social Security, only one other paper has focused on marriage penalties in the Social Security system (Brien, Dickert-Conlin, and Weaver, 2001). They consider the remarriage penalty facing *aged* (not child-in-care) widows whose deceased spouses worked in Social Security covered employment. The authors find that the 1979 law that reduced the penalty

These 500,000 widow(er)s cared for a substantial number of children -- more than a million children had established entitlement to benefits on these accounts by the end of 2000.[2]

Unlike private insurance, social insurance systems such as the U.S. Social Security program often have provisions that limit or stop payments based on a beneficiary's ability to support himself or herself. Widow(er)s who remarry presumably receive economic support from their new spouses and are in less need of support from a public program. In this regard, the termination provision is similar to another feature of Social Security, namely, the earnings test. Widow(er)s (and other beneficiaries) who are under the full retirement age and who earn above exempt amounts specified in the law have some or all of their Social Security benefits stopped.[3] Provisions such as the termination rule and the earnings test help ensure a well-targeted Social Security program, but they may have the unintended consequence of distorting marriage and work decisions.[4]

Because marriage has been linked to a number of positive outcomes,[5] we measure the size of marriage penalties in the child-in-care program in an effort to aid policymakers in assessing the trade-offs between a well-targeted program and marriage incentives. Our comparison of these results with studies from the income tax literature suggests the child-in-care penalties are large enough to affect marriage decisions. We

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for remarriage over age 60 resulted in more widows over age 60 marrying and that marriage rates among widows drop immediately prior to age 60 and increase at age 60.

[2] These statistics are based on weighted samples from administrative records maintained by the Social Security Administration.

[3] The full retirement age of Social Security varies by birth cohort. U.S. Social Security Administration (2001a, 2001b) contain information on this provision and on other program rules.

[4] See Leonesio (1993) for a review of the evidence on the incentive effects of the earnings test.

[5] Waite (1995), for example, argues that marriage is associated with improved health, higher income, and better outcomes for children.

also offer cost estimates for the complete repeal of the termination rule (including marriages that have already occurred) and for a less costly prospective repeal of the termination provision. Overall, our work addresses the incentive effects of the termination provision and the costs associated with its repeal. We do not address equity issues (i.e., should married persons with deceased spouses receive Social Security while other married persons do not), nor do we address the overall treatment of marriage by the Social Security program.[6]

An interesting and recent development in the policy discussions over government programs and marriage involves the re-authorization of the TANF program. The Bush Administration and many members of Congress argued that the government should take an active role in informing welfare recipients about the benefits of marriage, including public education campaigns (U.S. Congress, 2002a). The idea of the government providing information to program beneficiaries (as opposed to rule changes that might involve substantial costs) is an intriguing one in the case of the child-in-care program. Our discussion of how marriage penalties arise in the Social Security program suggests that many widow(er)s may perceive much larger penalties than actually exist. In fact, because of complex family maximum provisions in the Social Security law (which may not be well understood), a substantial portion of persons who receive widow(er) benefits actually face no penalty (at the *family* level) but may believe that they do. We offer some practical suggestions on how the Social Security Administration (SSA) can better inform its beneficiaries about actual penalties – an approach that entails relatively little cost but which may promote marriage.

[6] As a whole, Social Security likely subsidizes marriage because several types of benefits are based on marriage (U.S. Social Security Administration 2001a).

Institutional Details: Marriage Penalties in the Child-In-Care Program

Social Security calculates benefits based on primary insurance amounts (PIAs) – a figure based on a worker's average lifetime monthly earnings in Social Security covered employment. A person's PIA increases with earnings, but the PIA formula favors low earners. A widow(er) caring for a deceased worker's child who is under age 16 or disabled is eligible for a monthly benefit potentially equal to 75 percent of the deceased worker's PIA. Each child who is under age 18, disabled, or aged 18 to 19 and attending high school is also eligible for a benefit potentially equal to 75 percent of PIA. The widow(er)'s eligibility ends when he or she remarries or when the youngest child reaches age 16, whichever comes first. However, the children's benefits continue as long as they are categorically eligible.

Although each survivor is potentially eligible for 75 percent of PIA, two provisions of Social Security – the family maximum and the earnings test – can reduce this amount. Thus, the monthly marriage penalty faced by a child-in-care widow(er) is not necessarily equal to 75 percent of the PIA.[7]

The family maximum of Social Security limits the total amount that can be paid on a given worker's record and is a function of the worker's PIA. To illustrate this provision, consider a worker who died in 2001. Monthly family benefits to the widow(er) and children in that year cannot exceed:

(a) 150 percent of the first $717 of the worker's PIA, plus

(b) 272 percent of the worker's PIA over $717 through $1,034, plus

(c) 134 percent of the worker's PIA over $1,034 through $1,349, plus

(d) 175 percent of the worker's PIA over $1,349.

Social Security determines the initial maximum in the year the worker dies or, if it is earlier, the year the worker is first eligible for Social Security benefits (i.e., is age 62 or disabled). From the date it is determined, Social Security annually adjusts the maximum and the PIA for inflation. The dollar bend points of the formula used to determine the initial family maximum benefit adjust each year for wage growth in the economy.[8] Figure 1, based on the formula above, shows the relationship between the PIA and the family maximum (FMAX). The family maximum is never below 150 percent of the PIA and is never above 187.5 percent of PIA.[9]

To see how the family maximum affects marriage penalties, consider a family of three (a widow(er) and two children) whose maximum is 187.5 percent of the PIA. Although each family member's original benefit amount is 75 percent of PIA, the family maximum will only allow each member to be paid 62.5 percent of PIA (for a total of 187.5 percent). If the widow(er) remarries, his or her benefit stops but the two children then receive their full original benefit amounts of 75 percent of PIA. The family's total benefit following remarriage would be 150 percent of PIA. The actual monthly marriage penalty to the family, therefore, is 37.5 (i.e., 187.5 – 150) percent of PIA.

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[7] Surviving divorced spouses are also eligible for child-in-care benefits. Throughout the paper, the term widow(er) is meant to include surviving divorced spouses. Also, a child-in-care widow(er) benefit terminates upon marriage, but it can be restored if the marriage ends.

[8] The family maximum formula has a somewhat different structure for years prior to 1979.

[9] This result is not specific to the 2001 family maximum formula. Because Social Security annually adjusts each bend point by the same factor, it will always be the case that the family maximum ranges from 150 percent of PIA to about 187.5 percent of PIA. Note that, in Figure 1, we allow the PIA to range from $0 to $2000; such a range likely includes all possible PIA values for workers who die in 2001 (see Table 2.A26 in U.S. Social Security Administration (2001a) for the most recent information on PIA values of maximum earners).

We calculate the actual penalty at the family level for two reasons. First, the widow(er) likely controls the family's Social Security payments regardless of whether he or she receives a benefit himself or herself. Second, measures of economic well-being, such as the U.S. poverty measure, are typically based on family income.[10]

In general, we write the actual monthly marriage penalty as the difference between the family benefits when the widow(er) and the children are eligible, B_U, and the family benefits when only the children are eligible, B_M :

$$B_U = \text{MIN}[(N+1)*0.75*PIA, FMAX], \quad (1)$$

$$B_M = \text{MIN}[N*0.75*PIA, FMAX], \quad (2)$$

$$\text{ACTUAL PENALTY} = B_U - B_M. \quad (3)$$

where N denotes the number of children and FMAX is the family maximum that applies. The formula indicates that, in addition to PIA, the number of children present is a major determinant of the penalty size. Figure 2 depicts this relationship in monthly dollars for 2001. When only one child is present, B_U is 150 percent of PIA and B_M is 75 percent of PIA. Since the family maximum is never below 150 percent of PIA, it is not a factor in the penalty calculation in this case, and, consequently, the monthly penalty is *always* 75 percent of PIA. When three or more children are present, the family maximum binds regardless of whether the widow(er) receives benefits, that is, B_U and B_M both equal the family maximum. Therefore, the penalty is *always* zero when three or more children are present. When two children are present, the penalty depends on the PIA. One interesting

[10] The poverty measure is based on a particular definition of the family: individuals related by blood or marriage who reside in the same household. Our definition of family is based on Social Security program features: individuals who receive benefits on the same deceased worker's record. This definition of family has some advantages. For example, it includes dependent children who do not reside with the widow(er), such as a disabled child in an institution. It also has some drawbacks. Although it will generally be the case that the widow(er) is the mother or stepmother of the children on the deceased worker's account, this will not always be true.

result in the case of two children is that if the PIA is low (i.e., below the first bend point in the family maximum formula), the marriage penalty is zero because whether the widow(er) is eligible or not the family benefit will be 150 percent of PIA. In general, the family maximum provisions cause the dollar value of the monthly marriage penalty to be negatively related to the number of children and positively related to the size of the PIA.

As noted above, the earnings test of Social Security also affects the marriage penalty a widow(er) faces. In 2001 the earnings test requires that, for each two dollars of annual earnings above $10,680, a widow(er) loses one dollar in his or her Social Security benefit (the $10,680 figure is referred to as the exempt amount and is adjusted annually by SSA based on wage growth in the economy). To see how the earnings test affects marriage penalties, consider a specific example: a family composed of a widow(er) and two children where the PIA is $1,034 and the family maximum is $1,938. If the widow(er) had no earnings, each family member would receive 62.5 percent of the PIA, which is the family maximum divided by three or $646. Now suppose the widow(er) earns $18,432 in 2001.[11] This is $7,752 above the exempt amount of $10,680 and the widow(er)'s Social Security must be reduced by $3,876 (i.e., 7,752 * 0.5). This is equal to exactly six months worth of Social Security benefits, so SSA would not pay the widow(er) his or her $646 benefit for the first six months of the year. Because the widow(er) does not receive a benefit, the family maximum does not bind and the children, in those six months, would get their full 75 percent of PIA. So, for the first six months, the family receives 150 percent of the PIA ($1,551 a month). Starting with the 7th month, each family member – including the widow(er) – receives $646 (for a total of

$1,938). If the widow(er) had remarried, the family would receive $1,551 for all months, implying that the marriage penalty is zero in the first six months and $387 ($1,938-$1,551) in the final six months. Note that, in this example, if the widow(er) had earnings greater than $26,184, the earnings test would have prevented payment of widow(er) benefits for *all* months in 2001 and no marriage penalty would exist for that year.

In sum, the monthly marriage penalty faced by a widow(er) depends on the number of children, the PIA, and his or her earnings. The lifetime penalty depends, additionally, on the ages of the children, particularly the age of the youngest child. Child-in-care widow(er) benefits typically terminate when the youngest child reaches 16. Widow(er)s with very young children who remarry forfeit benefits for a number of years.

Perceived Penalties

Due to the complicated interaction between individual benefits and family maximums, it is possible that the actual marriage penalty may differ from what the widow(er) *perceives* the penalty to be. As a result of administrative procedures instituted by SSA, a widow(er) is likely to know that marriage terminates his or her benefits.[12] However, SSA policy does not require any printed or verbal discussion of the effect of

[11] A widow(er) would provide an estimate to SSA of his or her earnings for a particular year. If actual earnings ultimately differ from the reported amount, SSA would pay additional benefits or collect for the overpayment of benefits.

[12] The SSA publication "What You Need to Know When You Get Retirement or Survivors Benefits," which is mailed to widow(er)s upon entitlement, contains a section on marriage that tells child-in-care widow(er)s (and some other beneficiaries) that "your benefits will stop if you get married, except in special circumstances" (U.S. Social Security Administration, 2002). (The special circumstances refer to exceptions in the law that allow these widow(er)s to remarry *other* Social Security beneficiaries who receive certain types of benefits.) Perhaps more important, SSA, on a regular basis, mails these widow(er)s a form on which they are *required* to report whether they are now married and whether the children are still under their care. In our view, it is reasonable to conclude that the periodic mailings cause these child-in-care widow(er)s to realize their continued eligibility depends upon being unmarried (as well as having children in their care). SSA administrative policies are described in U.S. Social Security Administration (2003).

remarriage on *family* benefits. Consider, for example, a family composed of a widow(er) and three children whose family maximum is 187.5 percent of PIA. From Social Security's accounting perspective, each individual receives 46.875 percent of PIA.[13] The widow(er) – presumably knowing that his or her benefit will terminate upon remarriage – may perceive this amount to be the penalty, but recall from the preceding discussion that when three or more children are present the actual penalty is zero. If this widow(er) were to remarry, the family would still receive 187.5 percent of PIA because the widow(er)'s 46.875 percent of PIA would simply be redistributed to the children. We consider this to be the upper bound of the mistaken inference a widow(er) could make and we refer to this incorrect way of calculating the penalty, based on individual rather than family benefits, as the *perceived* monthly marriage penalty.[14] Because a widow(er)'s benefit is the smaller of 75 percent of PIA or the family maximum divided by the number of family members, this can be written as follows:

$$\text{PERCEIVED PENALTY} = \text{MIN}[0.75*\text{PIA}, \frac{FMAX}{N+1}] \qquad (4)$$

Actual penalty and perceived penalties are shown for families with one child, two children, and three children in Figure 3. The figure illustrates that the distance between the actual penalty and what we call the perceived penalty is greatest for families with three or more children because the widow(er)s receive individual benefits while unmarried, yet at all levels of PIA, the family maximum formula results in no actual

[13] The widow(er) will receive an "award" letter from SSA upon entitlement that describes the child-in-care widow(er) benefit (including the dollar amount of the widow(er) benefit).
[14] Although SSA provides information to widow(er)s about the termination provision, some widow(er)s may not realize that benefits end until after they remarry. We do not address this issue, but it should be noted that in some (presumably) rare cases, the widow(er) may not perceive any penalty prior to marriage.

penalty. In contrast, the family maximum never binds for families with only one child, so there is no distinction between the actual and the perceived penalty.

Calculating Marriage Penalties in the Child-In-Care Program

To characterize the size of the marriage penalties faced by actual recipients of the child-in-care program and how these penalties vary by recipient characteristics, we use a weighted 10-percent sample of SSA's administrative records.[15] Like estimates of marriage penalties in other contexts, we stress that these are the penalties that arise from changes in Social Security benefits simply due to a change in legal marital status and that we are ignoring all other costs and benefits of marriage.

We estimate that, at the start of 2001, there were 239,140 widow(er)s entitled to child-in-care benefits from Social Security. In Table 1, we divide these widow(er)s into three distinct groups: no marriage penalty because of the earnings test, no marriage penalty because of family maximum provisions, and a positive marriage penalty.[16] We include summary statistics to relate these groupings to the previous discussion of how marriage penalties arise in the child-in-care program.

Note that, for 14.5 percent of widow(er)s (i.e., Group A in Table 1), the earnings test prevents the payment of benefits for *all* months of 2001. For these very high earners, there is no actual or perceived marriage penalty, and we exclude this group from the

[15] The 10-percent sample is based on the last two digits of the widow(er)'s Social Security number (SSN). Persons with SSNs ending in 00, 05, 20, 25, 40, 45, 70, 75, 90, or 95 are included, and each person is assigned a weight of 10. The last two digits of the SSN can be used to form a random sample (the two digits are not systematically assigned), and such samples are used for SSA publications, such as the *Annual Statistical Supplement* to the *Social Security Bulletin* (U.S. Social Security Administration 2001a). Our data, which is not publicly available due to confidentiality restrictions, include information from SSA's benefit records, earnings records, and SSN application records.

remainder of our analysis. Some of the widow(er)s in Groups B and C have earnings, but, empirically, the earnings test is of limited importance because the majority (86 percent in Group B and 78 percent in Group C) have earnings below the exempt amount ($10,680).[17]

For approximately 43,000 widow(er)s (Group B) and their 130,000 children, family benefits will equal the family maximum regardless of remarriage. Recall from the earlier discussion of program rules that these zero-penalty cases occur in all large families (three or more children) and in families with two children where the PIA is low. Consistent with this discussion, the average number of children in these families is high (3.0) and the average PIA is low ($772).

Still, the majority of families, 67.4 percent, do face positive marriage penalties. Not surprisingly, in these Group C cases, the average number of children (1.3) is low and the average PIA ($986) is high.

To get a better sense of the distribution of penalties, we use equations 3 and 4 to calculate penalties for all widow(er)s in Groups B and C.[18] Table 2 shows that fifty-percent of all widow(er)s face an actual annual penalty of $4,090 or more. Ten percent of all widow(er)s face an annual marriage penalty in excess of $10,920 per year. Although we do not know whether these penalties are large relative to total income (because Social Security administrative records do not include comprehensive measures of income), over 40 percent of widow(er)s face an actual penalty equal to 75 percent of the annualized value of their deceased spouses' PIAs. This is presumably a *relatively* substantial amount given that

[16] We project 2001 earnings based on actual earnings from 1999. Specifically, we assume 2001 earnings will be 11 percent higher than 1999 earnings. Average wages in the U.S. grew by 11 percent from 1997 to 1999 (U.S. Social Security Administration 2001a, Table 2.A8).

[17] By definition, no widow(er) in group B or C has all 12 months of benefits suspended due to the earnings test. For the relatively few persons in these groups with earnings above the exempt amount, one or more

policymakers believe 75 percent of PIA is enough to help a widow(er) maintain his or her standard of living following a worker's death.

Perceived penalties are substantially higher – 50 percent of widow(er)s may perceive a penalty of $6,430 or more. And, our upper bound estimate suggests that over 20 percent of widow(er)s may perceive a penalty when in fact one does not exist.

In Table 3, we present summary statistics for several subgroups of the widowed population. Recently-entitled widow(er)s – those entitled during the year 2000 – have actual and perceived penalties that are somewhat lower than the overall widow(er) group. The mean actual penalty ($4,230) and the median actual penalty ($3,910) are $560 and $180 less than the mean and median of the overall widow(er) group (perceived penalties are also lower). One explanation for this difference is that the entire pool of widow(er)s may disproportionately be persons with high penalties who chose not to remarry precisely because of the penalty. Recently-entitled widow(er)s have not had much time to remarry and may reflect a less select distribution.

Table 3 also investigates penalties facing groups more typically thought to be economically disadvantaged, including young widow(er)s, African Americans, and Hispanics. The results reveal that relatively large percentages of very young widow(er)s, black persons, and Hispanics face no actual penalty because they are characterized by large family sizes and low PIAs.[19] For example, one out of every three young widow(er)s and Hispanic recipients would not incur a penalty upon remarriage.

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months of benefits (but fewer than 12) will be suspended. For these widow(er)s, we calculate penalties as explained in the discussion of the earnings test.

[18] Equations 3 and 4 pertain to monthly marriage penalties. Except when the earnings test would prevent payment of benefits for some months of the year, we approximate annual penalties by multiplying the monthly penalty as of January 2001 by 12.

[19] Race / ethnic status is from applications for new or replacement Social Security cards. Prior to 1980, these applications offered three categories: White, Black, and Other. Starting in 1980, these were replaced

Estimates of the Effect of Marriage Penalties on Marriage from the Income Tax Literature

The child-in-care widow(er) population is not represented in large numbers in survey data, and SSA's large administrative data files do not contain enough information to formally model the remarriage decision.[20] However, it is possible to assess whether the marriage penalties in the child-in-care program are large enough to affect marriage decisions. To do so, we rely on the many studies that measure the size of marriage penalties in the tax code and its effects on behavior.

The Congressional Budget Office (CBO) and the Office of Tax Analysis in the Department of Treasury conducted two of the more recent studies on the size of marriage penalties in the U.S. tax code. Using its "Basic Measure," CBO found 42 percent of married couples in 1996 faced a tax penalty, which had an average annual value of $1,380 (Congressional Budget Office, 1997). The Department of Treasury study found that 48 percent of couples incurred a marriage penalty, with an average value in 1999 of $1,141 (Bull et al, 1999). These are well below the average actual and perceived penalties ($4,790 and $6,560) for all 2001 child-in-care widow(er)s that are reported in Table 3.

Alm and Whittington (1996a) examined marriage tax penalties for the period 1967 through 1994. In constant 1994 dollars, the average penalty rose from about $350

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with: Asian, Asian-American, or Pacific Islander; Hispanic; Black (Not Hispanic); North American Indian or Alaskan Native; White (Not Hispanic). Obviously, these data can yield inconsistent and incomplete results. We take a simple approach, namely, classifying a person as Hispanic (or Black) if he or she reports Hispanic (or Black) on *any* application for a new or replacement Social Security card.

[20] Although SSA administrative data have information on whether a benefit was terminated due to remarriage, there is no information on prospective or actual spouses. In addition, the information on the widow(er) is generally limited to data needed to administer the Social Security program. For example, even basic information, such as the widow(er)'s education, is not available.

in 1967 to a peak of $1,900 (in 1981). By 1994, Alm and Whittington find that the average penalty was $1,200, which is similar to results found by Eissa and Hoynes (2000) and Feenberg and Rosen (1995). Again, these values are well below the averages reported in Table 3 for child-in-care widow(er)s.

Studies have found that tax laws have small but statistically significant effects on marital decisions. Alm and Whittington (1995), using time series variation in marriage penalties over the 1947 to 1988 period, found that aggregate marriage rates decline as penalties increase. A followup study (Alm and Whittington 1999) that used individual longitudinal data also found a negative relationship between penalties and the probability of marriage. At the mean value of the variables, a 10 percent increase in the marriage penalty lowered the probability of marriage by 2.3 percent; much higher elasticities were found at maximum levels of tax penalties. On another margin, Sjoquist and Walker (1995), Gelardi (1996), and Alm and Whittington (1996b) found that couples timed their marriages to avoid paying a tax penalty for one year.[21]

Given that researchers find that marriage penalties in the tax code affect marital decisions and we find the penalties in the child-in-care program are substantially higher than those in the tax code, it is plausible these penalties discourage marriage or encourage couples to postpone marriage while the widow(er) is eligible for benefits.[22]

[21] For a study that examines how marriage penalties are affected by the interaction between the tax system and government transfer programs, see Dickert-Conlin and Houser (1998).

[22] Studies from the income tax literature are not restricted to families with minor or disabled children, so results may not directly apply to child-in-care widow(er)s. However, we also note that the AFDC/TANF literature has found marriage effects (Moffitt 1998).

Costs of Removing the Marriage Termination Provision

In this section, we consider the cost of removing the termination provision. To provide policymakers with a range of options, we evaluate three possible changes: (1) repealing the termination provision completely (and allowing widow(er)s with previously-terminated benefits to re-establish entitlement), (2) repealing the provision prospectively for all new *marriages*, and (3) repealing the provision prospectively for all new *beneficiaries*.

Note that, in general, the cost of repealing the termination provision is invariant to the repeal's effect on marriage decisions. A widow(er) who would remarry *only if* the termination provision were removed is a person who will always be a beneficiary and always impose costs on Social Security (i.e., if the termination provision remains in place such a person would not remarry and collect benefits, and if the termination provision were removed such a person would remarry and collect benefits). The cost depends on widow(er)s who will remarry *even in the face* of a termination provision. We can observe such widow(er)s in the Social Security Administration's data.

First, we consider a complete repeal of the termination provision beginning in 2003.[23] Under this policy, widow(er)s with previously terminated benefits could be re-entitled to benefits (provided they have children in their care) for months in 2003 and later. To calculate costs for this policy option, we first examine historical information in a 10-percent sample of SSA's administrative records. We use this historical information to determine how much SSA saved in past years by having a marriage-termination provision, or, alternatively, how much it would have cost SSA in those past years had the

[23] Technically, Social Security rules require a survivor to be unmarried at initial entitlement and that benefits terminate upon remarriage. In cases where the worker was divorced prior to his or her death, the ex-spouse may not initially be eligible for benefits because the ex-spouse may have remarried prior to the worker's death. This feature of the law would not be changed. In essence, when we speak of repealing the termination provision, we mean that marriages that occur *after* the worker's death would not prevent entitlement to child-in-care benefits.

termination provision not existed. We then use these hypothetical, historical costs to project costs for years in the near future.[24] We estimate the cost to Social Security from a complete repeal would be $222 million in 2003. The five-year cost (from 2003 through 2007) would be about $1 billion. To provide some perspective, the $222 million figure for 2003 is less than 0.00005 of taxable payroll.[25]

Alternatively, policymakers in favor of removing the marriage termination provision might prefer to remove it prospectively. One approach would be to no longer apply the termination provision for marriages that occur *after* enactment of legislation. Such an approach would lower near-term costs substantially because widow(er)s with terminated benefits would not have their eligibility restored. A prospective repeal would still potentially leverage a large behavioral effect because currently-entitled widow(er)s would be free to marry after enactment. Again, any behavioral effect does not affect our cost estimate - widow(er)s who would remarry *because* of a repeal are persons who will be on the rolls regardless of whether a termination provision exists. We estimate that a prospective repeal (i.e., for all marriages contracted in 2003 and later) would have a 5-year cost of $318 million, or about 30 percent of the 5-year cost of complete repeal.[26]

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[24] Specifically, we compute hypothetical costs for all years 1993 through 1999, and then project figures for later years using the average percentage change in costs from the 1993 through 1999 period. We take earnings as fixed. Persons who become re-entitled to child-in-care widow(er) benefits might alter their labor supply. Other caveats about these estimates should be made. Actual costs to the government could be lower because we ignore the additional federal revenue due to the taxation of Social Security benefits. On the other hand, costs presented here may be understated because some widow(er)s who would be eligible for benefits under the proposal are not in SSA's record system. Specifically, a widow(er) with very high earnings may not bother to claim benefits initially because the earnings test would prevent payment of any benefits. Later, he or she may remarry and, possibly, stop working. Such a widow(er) would be eligible under the proposal but not accounted for in our cost estimates. All costs are in constant 2002 dollars.

[25] Taxable payroll consists of total earnings subject to Social Security taxes. Taxable payroll is expected to be $4.537 trillion in 2003 (U.S. Congress, 2002b, p. 169).

[26] The $318 million figure is derived by adjusting the 2003 through 2007 cost estimates under complete repeal downward, using separate estimates of the proportion of widow(er)s who would be eligible under prospective repeal (for example, the cost in 2007 under complete repeal is $193 million, but the cost under prospective repeal is only $94 million because we estimate that only 49 percent of the widow(er)s who

Finally, a less costly prospective repeal would remove the termination provision for new beneficiaries (i.e., cases where the worker's date of death followed enactment of the legislation). We estimate that removing the termination provision for cases where the worker's death occurred in 2003 or later would have a 5-year cost of $83 million. Such a repeal would have a limited effect on marriage decisions initially because current beneficiaries would be unable to take advantage of it.

Options Other Than Repealing the Termination Provision

In the recent debate over the reauthorization of the TANF program, the Bush Administration argued that the government has a role in disseminating information on the effects of marriage. Arguing that marriage lowers poverty, improves the well-being of children, and fosters communities with fewer social problems, the Bush Administration has advocated using some TANF funds to promote marriage, including public education campaigns that cite the benefits of "healthy marriages."[27] The idea that more information might promote marriage has been offered in the past. Waite (1995) argued that social scientists had an obligation to provide the public with information on the benefits of marriage much in the same way medical researchers provided information on the benefits of exercise or the hazards of smoking.

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benefit in 2007 under complete repeal had marriages contracted in 2003 or later). Prospective repeal could cause some "gaming" of the legislative proposal, where remarried widow(er)s choose to divorce and then remarry the same person after the legislation takes effect. This type of gaming, which is not incorporated into these estimates, has some limitations (for example, many states require couples to live apart for a period of time before a divorce is granted).

[27] See comments by Wade F. Horn, Assistant Secretary for Children and Families in the Department of Health and Human Services, in the March 18th, 2002 issue of *Insight* magazine.

Although some persons have criticized using TANF funds to promote marriage,[28] the idea of the government as a conveyor of information is an interesting one in the case of the child-in-care program. For reasons discussed earlier, it is plausible that many widow(er)s perceive higher penalties than actually exist. By providing accurate information to beneficiaries, SSA might increase the likelihood of marriage simply because beneficiaries would realize the penalties are not as severe as they seem. One promising mechanism for informing beneficiaries is the annual cost-of-living adjustment (COLA) notice issued by SSA. Language could be added to these notices to inform child-in-care beneficiaries that, while remarriage terminates the widow(er)'s benefit, it may not reduce total benefits paid to the family. Individuals wanting detailed information about how marriage affects their family benefits would be instructed to contact SSA. This is just one of many low-cost methods for disseminating information about the effect of marriage on family benefits.[29]

Conclusions and Future Research

There are several important findings presented in this paper. Although the marriage termination provision in Social Security's child-in-care program helps ensure a well-targeted program, it does produce sizeable marriage penalties. These marriage penalties are much larger than those that have been documented in the U.S. tax code and, because of their size, likely do affect marriage decisions. For example, fifty-percent of

[28] See Heidi Hartmann's response to Assistant Secretary Horn in the March 18th, 2002 *Insight* magazine article.

[29] SSA produces a number of publications that are distributed in field offices and via the Internet. A new publication could be produced that contains a discussion of the family maximum and how family benefits change upon remarriage. In addition to being available in field offices and on the Internet, such a publication could be included along with the "award" letters that are mailed to newly-entitled beneficiaries.

widow(er)s face an annual penalty of $4,090 or more and ten percent face an annual marriage penalty in excess of $10,920 per year. Because of family size and PIA, minorities and young widows tend to face relatively smaller penalties, although the mean penalty still exceeds $3,300 per year for these groups.

We estimate that complete repeal of the termination provision would increase program expenditures by a relatively modest amount of $222 million in 2003. Prospective repeal would cost even less and, depending on the type of prospective repeal, might leverage a large behavioral effect because current beneficiaries would be free to marry.

It is likely that widow(er)s perceive larger penalties than actually exist. This may especially be true for some groups of economically-vulnerable widow(er)s (those with large families and those from minority groups). We outlined some simple steps that the Social Security Administration could take to let widow(er)s know that penalties are less severe than they seem. This practical approach to policy has some advantages: it is low cost and may promote marriage.

The results in this paper raise a number of additional questions and suggest some important avenues for future research. For example, the penalties are quite large, and yet some widow(er)s do remarry. One direction for future research would be to use the marriage termination provision to derive explicit estimates of the value of marriage. Also, given the size of the penalties (and the results from the income tax literature), it is likely that the termination provision affects marriage decisions. However, we have not measured the magnitude of these effects, nor have we assessed whether the provision is more likely to cause postponement of marriage (as opposed to never remarrying). The

welfare implications in the postponement case are serious (i.e., postponing marriage while children are in the household may affect the children's well-being), but are of less concern than in the never-remarrying case (which has implications for the children's well-being *and* for the widow(er)'s well-being later in life). Measuring the effects of the termination provision is difficult because child-in-care widow(er)s are not typically represented in large numbers in surveys. However, future research may be able to combine these widow(er)s with other groups (that face marriage subsidies or penalties) in a general model that relates financial incentives to marriage decisions.

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Table 1 – Widow(er) Groups, 2001					
	Number	Percent of All Entitled	Average Annual Earnings	Average Number of Children	Average PIA of Deceased Spouse
No Actual Penalty					
Group A.—Earnings Test Prevents Payment of Widow(er) Benefits for *All* Months in 2001	34,760	14.5	$37,696	1.8	$870
Group B.—Family Maximum Paid Regardless of Whether Widow(er) Remarries	43,230	18.1	$3,951	3.0	$772
Positive Actual Penalty					
Group C.—All with Positive Actual Penalty	161,150	67.4	$5,887	1.3	$986

Table 2

Marriage Penalty Deciles
All Child-in-Care Widow(er)s Receiving Benefits, 2001

Decile	Annual Dollar Amounts		Annual Relative Amounts	
	Actual	Perceived	Actual	Perceived
10	0	2,300	0	0.31
20	0	3,460	0	0.44
30	1,960	4,520	0.19	0.5
40	3,580	5,500	0.25	0.58
50	4,090	6,430	0.35	0.6
60	5,090	7,340	0.75	0.75
70	6,820	8,320	0.75	0.75
80	8,650	9,500	0.75	0.75
90	10,920	11,120	0.75	0.75
100	16,150	16,150	0.75	0.75
Percentage With Zero Penalty	21	0	21	0

Notes. The actual penalty measures the change in family benefits if the widow(er) were remarried. The perceived penalty measures the change in the widow(er)'s individual benefits if he or she were remarried. The annual relative penalty is the ratio of the widow(er)'s annual penalty to 12 times the amount of the deceased worker's PIA. Widow(er)s who will have all of their benefits suspended in 2001 because of the earnings test are excluded.

Source: 2001 SSA Administrative Records.

Table 3 - Marriage Penalties by Selected Characteristics
Child-in-Care Widow(er)s Receiving Benefits, 2001

	All Widow(er)s	Recently (2000) Entitled	<36 Years Old	Hispanic	African American	Men
N	20,438	2,358	4,423	2,653	3,265	1,085
Actual Penalty						
Mean	4,790	4,230	3,470	3,320	4,060	4,040
Median	4,090	3,910	3,140	2,880	3,720	3,770
Percentage with Zero Penalty	21	26	32	34	26	20
Perceived Penalty						
Mean	6,560	6,390	5,540	5,190	5,610	5,240
Median	6,430	6,020	5,310	4,830	5,390	4,920
Mean PIA	941	1,006	841	769	831	783
Mean Number of Children	1.7	1.8	2.0	1.9	1.8	1.5

Notes. The actual penalty measures the change in family benefits if the widow(er) were remarried. The perceived penalty measures the change in the widow(er)'s individual benefits if he or she were remarried. Widow(er)s who will have all of their benefits suspended in 2001 because of the earnings test are excluded.

Source: 2001 SSA Administrative Records

Figure 1 -- Family Maximum as a Percentage of the Primary Insurance Amount

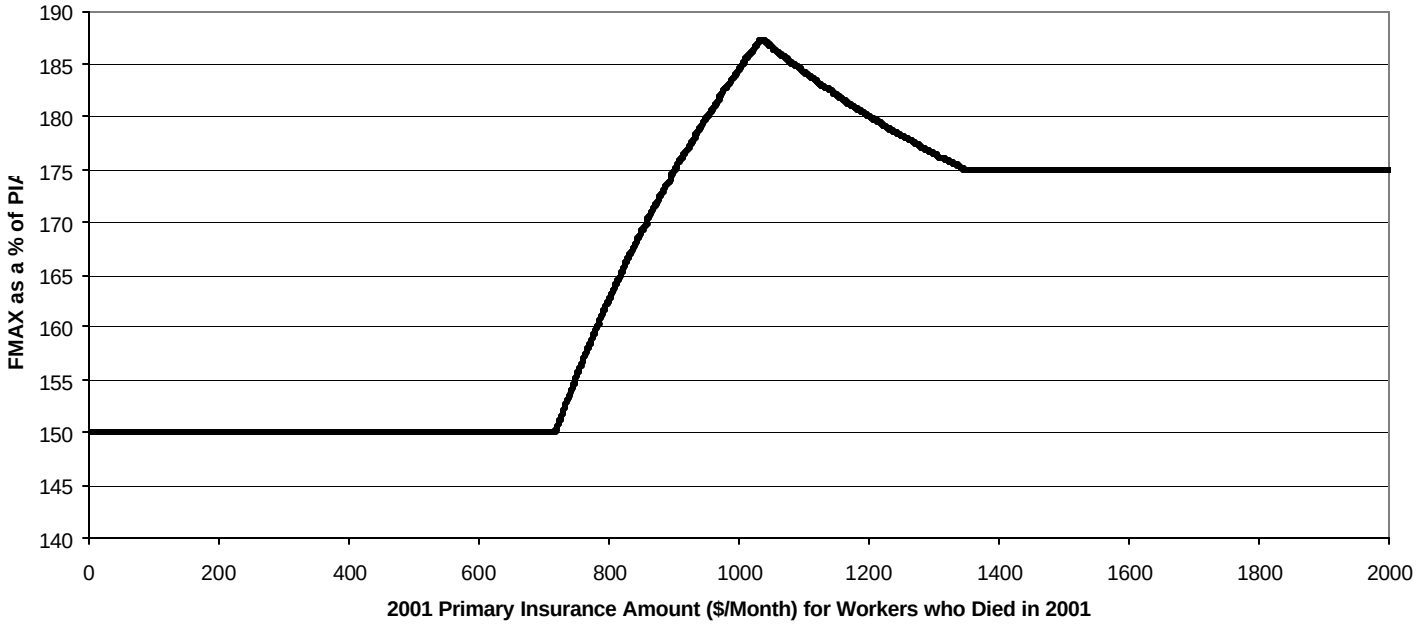

Figure 2 -- Actual Marriage Penalties

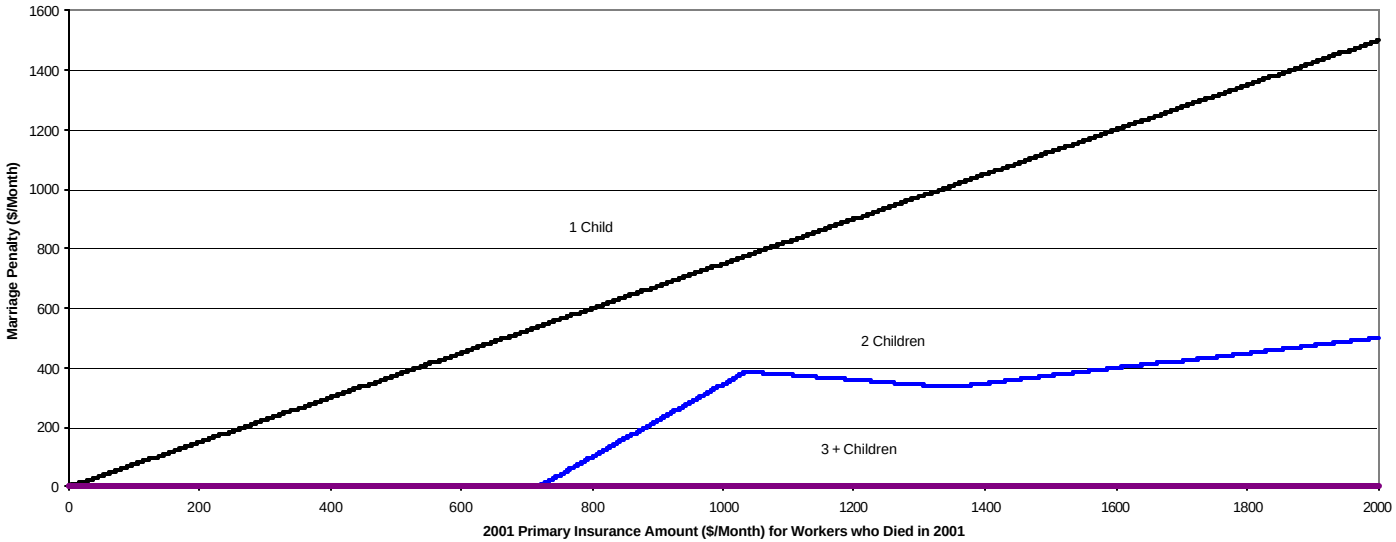

Figure 3 -- Actual and Perceived Marriage Penalties