Statement before the Senate Finance Committee On
Social Security: Is a Key Foundation of Economic Security Working for Women?

Survivor and Spousal Benefits in the Social Security Retirement Program

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Thank you Chairman Wyden, Ranking Member Hatch, and members of the Committee for the opportunity to speak to you today about women and Social Security. My name is Sita Slavov. I am a professor of public policy at George Mason University and a visiting scholar at the American Enterprise Institute. I have been studying Social Security and retirement policy for more than ten years.

The Social Security benefit formula makes no gender-based distinctions. However, disparate outcomes arise for men and women due to differences in work history and mortality. Women have, on average, lower earnings than men, and they are also more likely to take time out of the labor force as caregivers. As a result, women are much more likely than men to receive auxiliary benefits for spouses and survivors. In 2012, slightly more than half of female beneficiaries received higher benefits as a spouse or survivor than as a worker claiming on their own record (Social Security Administration, 2014a; Table 5.A14).

One serious concern for policy makers is the relatively high rate of poverty among older unmarried women, many of whom are widows receiving Social Security survivor benefits. In 2012, the poverty rate was 16.5 percent for unmarried women aged 65 and older, compared to 9.1 percent for the age group overall (Social Security Administration, 2014b; Table 11.1). Contributing to this problem is the fact that widows frequently experience a decline in income upon widowhood. That decline may occur because end-of-life expenses for the deceased spouse deplete the family's assets (McGarry and Schoeni, 2005) or because the widow loses part of the couple's combined Social Security and private pension income.

Social Security provides a survivor benefit that is tied to the primary earner's actual benefit. Primary earners who are in their 60s today receive a benefit equal to 75 percent of their primary insurance amount (the amount that would be received at their full retirement age of 66) if they claim age 62. In contrast, if they delay to age 70, they receive a benefit equal to 132 percent of their primary insurance amount. A survivor receives a maximum benefit equal to the larger of the primary earner's actual benefit and 82.5 percent of the primary earner's primary insurance amount (Weaver, 2002). To put it more simply, a primary earner who delays claiming until age 70 receives a monthly benefit that is 76 percent higher than the benefit he or she would have received at 62. He or she also leaves the surviving spouse with a benefit that is up to 60 percent higher than it would be if the primary earner had claimed at 62. However, many primary earners claim Social Security as soon as they turn 62, and very few delay past full retirement age.

My research, with my co-author John Shoven of Stanford University, suggests that in light of improvements in life expectancy, recent changes in Social Security benefit rules, and low interest rates, most people can benefit from delaying claiming (Shoven and Slavov, 2014a,b). (In the interests of full disclosure, I should mention that this research has received support from Social Security Administration and Sloan Foundation grants to the National Bureau of Economic Research and Stanford University, and that Professor Shoven is on the board of directors of Financial Engines, a company that assists individuals with retirement planning.) In particular, Professor Shoven and I show that even when interest rates are at their historical average (and not the low rates of today), a hypothetical married couple in which the primary earner was born in 1951 and the secondary earner was born in 1953 can increase the expected present value of their benefits by at least 7 percent through delayed claiming as compared to claiming at age 62. Under the historically low interest rates of today, the gains from delaying are even greater. The increase in household benefits is particularly large when primary earners delay because delay by primary earners also boosts benefits for widows. In other words, when a primary earner delays claiming, higher monthly benefits are payable over the remainder of the couple's combined lifetimes rather than just the lifetime of the primary earner. Other researchers have used a sample of actual couples and shown that the expected present value of the average couple's benefits is 3.1 percent lower as a result of claiming Social Security early. However, in the event that the wife is widowed, the expected present value of her benefits is 17.1 percent lower as a result of early claiming by the husband (Sass, Sun, and Webb, 2013). Thus, most of the gain in the lifetime value of benefits is realized in the event that the secondary earner is widowed.

It is somewhat of a puzzle why primary earners claim benefits so early given the potential monetary gains from delay. The gains from delay have increased substantially in the past 15 years, so individuals may not be fully aware of how much money they are leaving on the table by claiming early. A few recent studies show that people's preferred claiming ages are affected by the way in which the claiming decision is framed. For example, one way to frame the claiming decision involves using "breakeven" analysis, which provides people with the number of additional years they would have to live in order to recover the benefits forgone during the delay period. This kind of framing, which has been used by the Social Security Administration in the past, appears to incentivize early claiming (Brown, Kapteyn, and Mitchell, forthcoming; Liebman and Luttmer, 2012). Other studies show that people may tend to retire and claim at their designated full retirement age because they use this age as a reference point for evaluating losses and gains, or because they view it as a social norm or recommendation from the government (Behagel and Blau, 2012; Song and Manchester, 2007). Thus, it could be worth considering carefully what information is available to individuals making claiming decisions, and how this information is presented.

Reforms that modernize Social Security's family benefits would also improve the way Social Security treats women. The Social Security retirement program was designed in the 1930s, when single-earner families were the norm. The Social Security spousal benefit allows spouses who stay out of the labor force to collect a benefit even if they paid no payroll tax. The spousal benefit is paid regardless of financial need, and the spouses of higher-income individuals qualify for higher spousal benefits. This formula punishes two-earner families, in which both spouses pay payroll tax, by giving them a lower rate of return on their Social Security contributions compared to one-earner families (see, e.g., Clingman et al., 2012). It also provides a financial disincentive for women who expect to claim a spousal benefit to work outside the home, as these women will need to pay payroll taxes on their earnings without receiving any additional Social Security benefits (see, e.g., Biggs, Reznik, and Eissa, 2010).

Researchers at the Urban Institute have examined the impact of several expenditure neutral reforms that would modernize Social Security's family benefits (Favreault and Steuerle, 2007). For example, spousal and survivor benefits could be replaced with earnings sharing, in which each member of a married couple gets credited with half the couple's total earnings, combined with a self-financed survivor annuity, in which couples trade lower benefits while both members are alive for higher survivor benefits. Alternatively, a reduction in spousal benefits could be combined with a minimum benefit that anyone can receive. Finally, spousal benefits could be replaced with caregiver credits for those who raise children. The researchers find that all of these reforms would reduce disparities between one and two-earner couples and reduce poverty. That is, they all improve the structure of Social Security – targeting benefits to those who need it while reducing the financial penalty on two-earner families – without increasing expenditures relative to current law.

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