



Written Testimony President's Commission to Strengthen Social Security August 2001

Women are the face of Social Security, comprising 60 percent of beneficiaries over 65 and 72 percent of recipients over 85. Women depend on Social Security's guaranteed, lifetime benefits: 27 percent of women over 65 rely on Social Security for 90 percent of their retirement income. A comprehensive discussion of Social Security and its future cannot be had without women's realities, perspectives and needs being made perfectly clear.

OWL is the only national grassroots membership organization to focus on issues unique to women as they age, striving to improve the status and quality of life for midlife and older women. OWL's statement will reflect the realities of midlife and older women's lives, but our members also share a concern for the young women of today — women who remain the group most vulnerable to poverty in retirement tomorrow.

Women's Lives: Real Facts

Women earn less

Women earn only 72 cents for every dollar a man earns, so they are able to save less during their working years. In their 50's, which represent for most the highest earning years and a chance to play catch up with retirement savings, women earn only two-thirds of what men earn. Despite workforce participation gains made by women in the past decades, younger women are not exempt from this wage gap. A majority of women today work in retail, clerical or service jobs, just like their mothers did. Further, three out of four working women earn less than \$30,000 annually. You can't save and invest money you don't earn. Social Security's progressive distribution helps compensate for this situation, but private accounts leave low-wage workers, typically women and minorities, to fend for themselves.

Women take time out of the paid labor force for unpaid caregiving

Women take more time out of the workforce — in their younger years for child rearing and in midlife for caregiving for spouses and parents. For the average woman, caregiving will mean about 14 years out of the paid workforce. These are years in which she is not vesting in a pension, increasing her earning power, or garnering Social Security credits; these lost wages translate to less income in retirement.

Women aren't covered by pensions

Less than one-fifth of older women receive income from a private pension. Even when women are covered by pensions, they often don't reach the five-year mark for vesting in the pension. Primarily because of caregiving, women change jobs an average of every three and a half years.

New tax laws would reduce pension vesting requirements to three years, and this is great news for women still in the workforce.

However, traditional pension coverage for women is shrinking rather than growing. Over the past decade, there has been a dramatic shift toward defined contribution benefit plans and away from defined benefit pension coverage. Unlike defined benefit plans where the worker has a set benefit for the rest of their lives, defined contribution plans (e.g., 401k, 403b and 457 plans) do not specify the amount to be paid upon retirement, but instead offer upfront contributions to an account that accumulates in value over time. This shift in types of pensions means that even fewer young women will be able to count on a steady pension benefit, and instead will have to hope they don't outlive their 401k funds — plans which are funded by a percentage of their already lower earnings.

Women live longer

When our granddaughters become older women, we certainly hope that everyone is living longer, healthier lives. But if today's trends continue, women will continue to outlive men by at least six years. Living longer may be a blessing, but it is sometimes a financial nightmare. Women face the very real threat of outliving their money. They have less income to start with, and they have to make it go farther for longer. Younger women can't trust the stock market to make up for lower earnings, years out of the workforce, and a longer time in retirement. The guaranteed, inflation-adjusted, lifetime benefits of Social Security are more than a safety net: they are a solid financial base on which women can depend.

Result: Women are poorer in retirement

After battling lower wages, time out the workforce, and reduced access to retirement benefit plans, women are faced with less money to live longer lives. Today, the average older woman in America struggles to make ends meet on a limited annual income of \$15,615 (compared to an average of \$29,171 for men). Women are three times more likely than men to have lost a spouse and comprise 80 percent of seniors living alone, so they are quite literally on their own.

Because her retirement income is smaller, she spends a higher proportion of her income on housing costs — leaving less for other vital necessities such as utilities, rising medical costs, food and transportation. The average older woman also spends 20 percent of her limited income on out-of-pocket health care costs. The average woman on Medicare spends 20 percent more on prescription drugs than men — largely because of her greater longevity but also due to her greater tendency towards chronic illness.

Depending on the mythical three-legged stool for retirement security — Social Security, pensions and personal savings — has never worked as well for women. Her work patterns and lower wages make the latter two difficult to depend upon. That's what makes Social Security such an important financial foundation for women. Twenty seven percent of women over 65 rely on Social Security for 90 percent of their retirement income, and the numbers are higher for minority women. Without Social Security, OWL estimates that half of all older women would fall into poverty.

OWL is working to shore up all legs of retirement planning's three-legged stool by advocating for pay equity, urging America to value its caregivers, and pushing for women-friendly pension rules. In the meantime, we refuse to stand by and watch Social Security — the strongest leg — be dismantled.

Women and Social Security Privatization

Insurance against unexpected events

How would a privatized system provide a safety net for divorced women, widows, survivors with young children, women with disabilities, and others? Social Security is just that: a social insurance policy to provide security when life takes tragic or unexpected turns. Social Security is not just for retirees — it's for the 28-year-old widow who must now provide for her children on her own; for the 35-year-old single woman who becomes disabled after an accident or illness; for the children of a working 40-year-old mother who dies, and for so many more. In fact, one-third of all Social Security beneficiaries are children, widows, and people with disabilities. This system of social insurance allows families to count on a minimum floor of financial support should they lose their primary or sole breadwinner. A 27-year-old stay at home mother would probably not have enough saved in her or her husband's private accounts to help her keep her family from financial ruin, but Social Security's rock-solid guarantee will protect her.

Inflation-adjusted guarantee

Private accounts cannot offer what Social Security does: guaranteed benefits that never decrease, benefits that are adjusted upwards for inflation, and benefits that you can never outlive. For all the reasons listed above — lower wages, lower pension coverage, more time out of workforce for caregiving, longer life spans — women must have Social Security as a solid financial base they can depend upon.

If Social Security was converted to private accounts, retirees would turn to annuities to convert their cash account into equal monthly payments. But the private annuity market does not offer inflation-adjusted policies that are reasonable in cost and do not further decrease women's monthly payments. The fact that women have smaller accounts to start with and are likely to live many years longer than men means that annuity policies offer women a reduced benefit from the start. Finding a rare inflation-adjusted policy, if she could even afford it, would mean a further dramatic reduction in a woman's monthly benefit.

Stock market volatility

A woman's retirement security should not depend on the year she is born, the year she starts working, or the year she retires. Averages in stock market growth are just that — averages. They don't tell us how an individual woman will fare, nor do they protect her against the inevitable ups and downs of a risky market. Further, private accounts will most likely be subject to processing fees for Wall Street brokers, which could eat a larger proportion of women's already smaller accounts.

Benefit cuts & higher retirement age

Privatization would divert a massive amount of money — approximately \$1 trillion over only the next ten years — out of the Social Security program. To pay for this expense, there would have

to be sharp benefit cuts in the guaranteed portion of the program, or steep increases in payroll (FICA) taxes to cover the loss and pay transition costs. The private accounts are supposed to make up for these cuts, but they fail to do so and leave beneficiaries, especially future beneficiaries, short of where they would be under current law. Women will also pay more for privatization down the road. Not only will their accounts be smaller, but because of their longevity it will also cost women more to annuitize their private accounts — which they will have to do in order to withdraw the funds — when they do retire.

Under most privatization plans, the retirement age will have to be raised — again. Already slated to reach 67 years old for those Americans born after 1960, an increased retirement age is unrealistic and unfair for many women. The jobs women and minorities traditionally hold — service and retail workers and manual laborers — are especially strenuous and are often not feasible for 70-year-olds.

Comparing apples and oranges

Privatization proponents are pitching such reforms with the lure of a “better” rate of return on the dollar, an argument that can be especially appealing to younger people. This is a misleading and dangerous argument, not just for the reasons outlined above but also because it simply compares apples and oranges. You can't compare the social insurance nature of Social Security's guaranteed, inflation-protected, lifetime benefits with an individual account that carries no such protections and many more risks. Given its reliability and efficiency, Social Security remains a wise investment.

Young Americans understand Social Security's social insurance nature: a recent poll showed that 85 percent of young adults believed that “senior citizens generally need and deserve the government benefits they receive, so it is not unfair to young people.” In that same poll, young people said that “making sure that people receive a decent, guaranteed monthly retirement benefit” is a higher priority than “making sure that people receive a better rate of return” by a margin of 55 percent to 39 percent.

Privatization Hurts Solvency: Real Ways to Shore Up Social Security

The first question that is thrown at opponents of privatization is usually, “What would you do to “fix” it?” This implies that privatization is somehow a solution to any potential solvency issue, when in fact it actually hastens insolvency — using current predictions — by 15 years!

According to the latest report from the Social Security Trustees, the trust fund's surplus will end in 2038 without any changes, leaving a gap between incoming payroll taxes and outgoing benefit payments. We must remember that estimates are just that, and can vary widely from year to year. Two years ago, Social Security was expected to run out of money in 2032. If the economy grows faster than the trustees' conservative estimates, then Social Security faces no solvency threat in the next 75 years. While OWL wants to address long-term solvency issues to ensure the longevity and health of these critical programs, we must reject alarmist proposals that play off unfounded fears and threaten Social Security's guarantees.

However, there are sound improvements that can make the system more secure and solvent far into the future. This is not a comprehensive list, but rather some suggested starting points for discussion.

Social Security's long-term solvency can be strengthened by:

1. Using general revenues (in addition to the current direct payroll taxes) to guarantee that Social Security will be able to meet all of its obligations in 2038 and beyond. The surpluses projected for the next few years would go a long way to solving any potential solvency problems. However, the President's tax cut plan has locked up most of these funds for the next ten years.
2. Adjusting the maximum wage base by making all earnings subject to the payroll tax and credit them for benefit calculations. Some experts believe this action would make up for 75 percent of the solvency gap.
3. Invest 40 percent of the Trust Fund in stocks. This maintains the shared risk, shared benefit nature of Social Security, while potentially growing the trust fund surplus at a faster rate, which would help close the gap. Private pension plans often use this tactic to share the risk while maximizing the return.
4. Increase the payroll tax for employees and employers in 2020. While not a favorite option for most taxpayers, this proposal still has a place in the solvency discussion. If it helps preserve the universal nature of Social Security, where no one individual is left to sink or swim on their own, then it may be worth the cost.

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SUPPLEMENTAL

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