Cost-Neutral Policies to Increase Social Security Benefits for Widows: A Simulation for 1992

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Among older women, widows are more likely to live in poverty than married women. Thus, increasing Social Security benefits to widows seems desirable. Shifting some Social Security benefits from the period when women live as part of a couple to the period when they are widows could reduce poverty. This article uses the 1991 Survey of Income and Program Participation exactly matched to the Social Security Administration's record of benefits to evaluate the effect on poverty rates of four cost-neutral proposals that transfer Social Security benefits from married couples to surviving widows. The policies would moderately decrease poverty rates among older women by reducing the rate for widows more than the slight increase in the rate for couples. The evaluated proposals include a proposal supported by the majority of the 1994-96 Advisory Council on Social Security that would calculate the survivor's benefit as 75 percent of the couple's benefit, reduce the spouse's benefit from 50 to 33 percent of the husband's benefit, and reduce benefits by 1.5 percent.

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Poverty of the elderly mainly occurs among women who are not married, particularly widows. In 1992, less than 5 percent of married women aged 62 or older had family incomes below the poverty line, compared with nearly 20 percent of widows and over 20 percent of divorced, separated, and never married women (chart 1). About 60 percent of older women in poverty were widows (chart 2).

Increasing the Social Security benefits of widows would lower their poverty rates. Given the long-run fiscal pressures facing Social Security, increased benefits should be financed without increasing program costs. A possible funding source would be to reduce benefits of married women.

One proposal is to finance higher widow benefits by reducing spouse benefits to single earner married couples (1994-96 Advisory Council on Social Security 1996; Burkhauser 1994). A supplementary benefit reduction to all beneficiaries may be required to fund the benefit increase. Another possibility is to transfer some of couples' lifetime benefits from the period when women are beneficiary wives to the period when women live alone as widows (Warlick 1985; Steuerle and Bakija 1994; Sandell and Iams 1997). An actuarially fair arrangement implies that a $1 decrease in a couple's benefits can finance about a $1.45 increase in the survivor's benefits reflecting the longer life expectancy of survivors (usually the widow).

This article evaluates the poverty effects of the four proposals considered by the Advisory Council to increase Social Security benefits for widows, while financing it with benefit reductions concentrated on married couples. A majority of the 1994-96 Advisory Council on Social Security (1996) recommended one of the proposals—one that guarantees widows a benefit of 75 percent of the couples' total benefit. The recommended proposal would finance the increased generosity in the formula used to calculate benefits as widows by reducing spouse benefits to 33 percent from the 50 percent of the highest earner's benefit and slightly reducing benefits of all beneficiaries. This article also examines the effects of the three other proposals that provide actuarially fair increases in widow benefits financed by reducing benefits of retired couples. The analysis uses the 1991 panel of the Survey of Income and Program Participation (SIPP) to generate estimates for calendar year 1992.[1]

The article is presented in five sections: The first section describes the nature of Social Security benefits, the second section describes the four proposals, the third presents the empirical analysis with a discussion of methodology and results, the fourth section discusses conclusions, and the fifth section contains the technical appendix.

I. Social Security Benefits

Aged men and women usually receive Social Security current law benefits either as retired workers, spouses, or widow(er)s.[2] The Social Security Administration (SSA) pays retired-worker benefits to persons who have 40 quarters of coverage, which can be earned by 10 years of full-time work in a 40-year worklife. SSA calculates the primary insurance amount (PIA) or basic benefit at the normal retirement age (currently 65) based on each worker's lifetime of taxable, covered earnings, for example, the average indexed monthly earnings (AIME).

In some couples, each spouse receives retired-worker benefits based only on his/her own lifetime earnings. However, spouses aged 62 or older and widow(ers) aged 60 or older often receive auxiliary benefits. A spouse benefit is equal to one-half of the higher earner's (usually a husband's) retired-worker PIA, adjusted for the spouse's early retirement. The survivor's benefit (widow(er)'s benefit) generally is available to survivors aged 60 or older. It is equal to the husband's full PIA if benefits did not start before normal retirement age.[3]

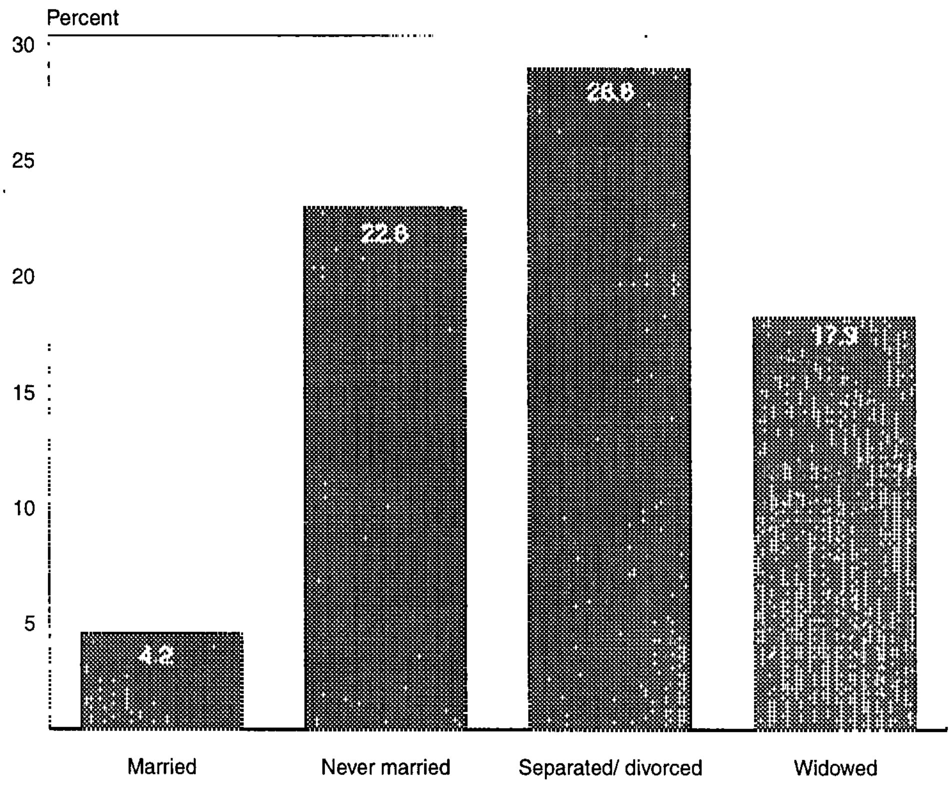
When a beneficiary is entitled to both her own retired-worker benefit and an auxiliary (wife or widow) benefit, the beneficiary is "dually entitled." SSA calculates the individual's own retired-worker benefit and provides a supplement equal to the difference between the retired-worker benefit and the full spouse's or widow's benefit. If the beneficiary's own retired-worker benefit is higher than the (potential) auxiliary benefit, then SSA pays only the retired-worker benefit. This effectively means that a beneficiary receives the largest benefit for which she or he is eligible. In effect, SSA pays to a couple with a dually entitled beneficiary the same retirement benefit as if the wife had not worked at all.

Most working wives today and in the near future earn retired-worker benefits that are over half but less than their husbands' full benefit.[4] This implies that they receive additional retired-worker (earned) benefits as wives, when they least need it financially, and receive no additional earned benefits as widows, when their financial need is greatest. If their husbands die, these working women receive survivors' benefits based on their husbands' full benefits, but, because of dual-entitlement restrictions, receive no additional benefits based on their own earnings. Consequently, because most wives will continue to have lower lifetime earnings than their husbands, the increasing labor force activity and lifetime earnings of more recent cohorts of women will not increase their Social Security benefits or reduce poverty among future cohorts of retired widows.

II. The Proposals

Although there are multiple ways to increase widow benefits, this article analyzes the four proposals considered by

Chart 1.—Poverty rate of elderly women 62 or older, by marital status, 1992



Source: 1991 panel of SIPP matched to SSA records.

the 1994-96 Advisory Council on Social Security (1997). Three of these prototypical proposals provide actuarially fair transfers from the time women live as part of a retired couple to the time they are widows. One proposal transfers 33 percent of the spouse's benefit, a second proposal transfers 10 percent of the total benefits that the couple receives, and a third proposal transfers the difference between the benefit received by a "two-earner" couple and the benefit based on the higher earner's PIA. The fourth proposal, supported by the majority of the 1994-96 Advisory Council, provides a survivor's benefit equal to 75 percent of the couple's benefit, while slightly reducing all benefits and reducing the one-earner spouse benefits by a third from 50 percent to 33 percent of the higher earner's benefit and reducing all benefits by 1.5 percent. The last two proposals affect not only the income adequacy of widows, but they also affect equity between couples with one or two retired workers. Legislation added spouse benefits early in the program to provide supplementary benefits for the "traditional" family with a nonworking spouse. These supplementary benefits create an equity issue because benefits are higher for "one-earner" rather than "two-earner" couples with the same lifetime earnings (1994-96 Advisory Council (Vol. II, p. 126)).

Policy A: Reduce the spouse benefit to 33 percent (from 50 percent) of the husband's benefit and use the proceeds to increase the survivor's (widow's) benefit.

A couple would be guaranteed benefits based on 133 percent instead of 150 percent of the higher earner's (usually the husband's) benefit, when the wife is not entitled to a retired-worker benefit based on her own earnings. This is a one-third reduction in the one-earner couple's spouse benefit (from 50 percent to 33 percent of the husband's benefit). The widow's benefits of a fully affected couple would increase to about 125 percent of her husband's benefits instead of 100 percent as under current law.

A couple with a "dually entitled" wife would also be guaranteed 133 percent of the husband's benefit (rather than 150 percent in current law), and the excess under current law would be transferred to the widow. Some wives who are dually entitled under current law would only receive retired-worker benefits because their own earned benefits are less than 50 percent but more than 33 percent of their husbands' benefit. These current law dually entitled wives will not be dually entitled under the proposal and therefore will only receive their own retirement benefits. As widows, they will receive the excess current law widow's benefit over their earned benefit. A couple in which the wife's retired-worker benefit is less than 33 percent of the husband's benefit would still be dually entitled and would have a couple benefit of 133 percent of the husband's benefit.

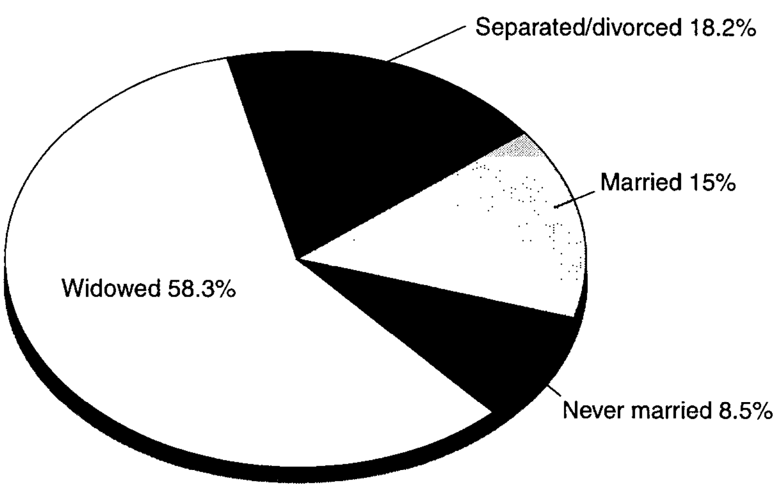
Policy B: Reduce the couple's (actual) benefit by 10 percent and increase the surviving widow's benefit with the proceeds.

This transfer reduces the old-age benefits of a couple by 10 percent, regardless of the type of old-age benefit (that is, retired-worker, dual-entitlement, or spouse-only benefits). The proceeds would be transferred to the couple's survivor. Policy B identically affects all couples with the same total benefits because it does not distinguish the type of old-age benefits (that is, spouse, dually entitled, retired workers).

Policy C: Reduce the couple's benefits to 150 percent of the higher earning spouse's PIAs and increase the benefit of the surviving widow with the proceeds.

This proposal applies when both the husband and wife receive only retired-worker benefits (that is, a two-earner couple with no spouse benefits). Policy C pays the couple a benefit of 150 percent of the largest individual benefit, which is equivalent to the benefit paid to a one-earner couple. Policy C transfers to widows the additional amount that the current law two-earner couple benefit exceeds the one-earner couple benefit. During the period when working women are widows, Policy C pays them benefits that exceed current law widow benefits, rather than paying additional benefits when their husbands are alive. This policy only affects couples where wives had substantial life-time earnings relative to their husbands' earnings.

Chart 2.—Percentage distribution of elderly women 62 or older in poverty, by marital status, 1992



Source: 1991 panel of SIPP matched to SSA records.

Policy D: Calculate the survivor's benefit at 75 percent of the couple's benefit; decrease the spouse's benefit to 33 percent (from 50 percent) of the husband's benefit; and reduce PIA formula amounts by 1.5 percent to make the proposal cost neutral.

Supported by the majority of the 1994-96 Advisory Council on Social Security, Policy D bases benefits on 75 percent of the combined couple benefit instead of the benefit of the higher earning spouse.[5] Under current law, a widow from a one-earner couple receives higher benefits than a widow from a two-earner couple with the same couple total of lifetime earnings. This is because the current-law benefit is equal to the higher earner's PIA. Policy D reduces this difference by increasing widow benefits for women who received their own retired-worker benefits when their husbands were alive.

The Advisory Council proposal finances the more generous widow's benefit by reducing the one-earner spouse benefit to 33 percent (from 50 percent) of the husband's benefit and by reducing the basic benefit PIA formula by 1.5 percent. Thus, single persons would contribute to the cost of the higher widow's benefit.

As in Policy A, a current dually entitled wife with retired-worker benefits above 33 percent of her husband's benefit would only receive her own retired-worker benefits.

Further Discussion

To satisfy concerns for the future fiscal integrity of Social Security without raising taxes, increased benefits must be balanced by decreased benefits so that the projected OASI Trust Fund remains equivalent to current law. Policies A, B, and C transfer a couple's lifetime benefits across time from the period when both spouses are alive to the period when only a surviving spouse remains. The amount transferred is calculated to be actuarially fair. In the typical couple, the wife is 3 years younger than her husband.[6] Reflecting life expectancies and spouse age differences, the typical couple will spend roughly 15 years together in retirement, and the wife will live an additional 6 years as a widow (see life expectancies in the U.S. Bureau of the Census 1996, table 120). Because a gender neutral transfer affects both widows and widowers, a $1 reduction in the couple's benefit can finance about a $1.45 increase in the survivor's benefit.[7]

Policy D is not an actuarially fair transfer because the 1.5 percent PIA decrease applies to all beneficiaries, even those who never marry and will not benefit from Policy D. The majority of the benefit decrease occurs for one-earner couples, although their widows do not benefit from the formula change. Policy D also increases the benefits of widows from two-earner couples, even those widowed before their husband received benefits. Consequently, early widows receive benefits even though there were no couple benefit reductions to offset the increase. Thus, although Policy D finances the survivor benefit increases with couple benefit decreases, that reduction is neither sufficient nor actuarially fair. Survivors of most two-earner couples receive increases, and those of one-earner couples receive decreases while they are intact. When the wife's retired worker benefit is less than 33 percent of the husband's benefit (the new spouse benefit), widows of dual earner couples do not receive higher widow's benefits.[8]

Most couples beginning retirement could adjust to a benefit reduction. This partly reflects the older age of survivors and the younger age of beneficiary couples, who often are in better health and able to work part time or even full time. For example, one member of the couple could delay retirement or work part time. Couples also can use other income or savings to substitute for the reduction in Social Security benefits. They also could reduce their consumption. In contrast, aged widows have few options to increase income through delayed retirement or part-time work and their assets are often depleted.

Voluntary Transfers

Policies A, B, and C could be made voluntary by permitting married couples to choose reduced retirement benefits in order to provide additional benefits for the surviving spouse. If couples are given a choice, only couples who expect to benefit probably will choose to do it. The couples who do nothing would not be affected. This voluntary option, in effect, uses Social Security as a savings vehicle. Using this option, women would save money in the period when they are retired with their husbands and transfer the savings to the period when they are widows.

Making voluntary choices about the size of survivor benefits for widows is common in the private sector. The Retirement Equity Act of 1984 requires the wife's written consent for her husband to receive a pension as a life annuity with no survivor benefits. The percentage of husbands selecting a joint and survivor option at retirement increased from about 53 percent in 1975-79 to about 76 percent in 1989 (Beller and McCarthy 1992).

A voluntary provision may create a selectivity problem if the choice reflects life expectancies known to the choosers. If the transfer is chosen by couples with lower joint expected lifetimes or higher expected survivor lifetimes, then costs would be higher than under a mandatory plan. Alternatives to reduce possible bias would require the choice before retirement, perhaps at age 50, or at the point the oldest spouse approaches early retirement age—age 62. This election must be irrevocable.[9] Other provisions of Social Security (such as early retirement or the age starting widow benefits) also have selectivity problems.

III. Empirical Analysis

Methodology

We simulate the policy changes using SSA records matched for calendar year 1992 to a sample from the 1991 longitudinal panel of the SIPP—a nationally representative survey of the noninstitutional population containing a full range of socioeconomic and demographic information. Our sample includes persons aged 62 or older in 1992 who we can match to SSA records.[10] Using the SIPP survey, we estimate the total family income for calendar year 1992, whether the family is above or below the poverty threshold, and the amount of the widow's payment. We simulate income changes from the four transfer proposals using Social Security benefit information.[11] The income estimates are constructed on an annual basis.

Social Security benefits and family income are reduced or increased according to the requirements of each policy proposal. The benefit changes for a year are added or subtracted to family income reported in the SIPP. We reduce widows' Supplemental Security Income to reflect the additional Social Security income from policy changes.

The 1992 net budgetary effect of implementation (in any single year) reflects the number of couples subject to the reductions and widows subject to enhancements in a single year.[12] These changes are actuarially fair and thus cost neutral in the long run. The total reduction in the couple's benefit over the years they both will be living is set to be equal to the total expected value of the survivor's lifetime benefit enhancement.

Results of Poverty Effects

The proposals only slightly increase the poverty rate of couples while sharply reducing that of widows (table 1). The current marital status of women is identified in the table. The widows' poverty rate decreases between 1.8 percentage points (about 12 percent) and 4.5 percentage points (about 25 percent), depending on the proposal. The rate only increases among married couples from 4.2 percent to between 4.4 and 4.7 percent (between 5 percent and 12 percent of the poverty rate). The 12.7 percent poverty rate of women aged 62 or older drops to between 11.1 and 12.1 percent, depending on the proposal (a drop of between 5 percent and 13 percent of the poverty rate). These changes are consistent with those in our previous analysis of some of these policies using 1990 income (Sandell and Iams 1997).[13]

Policy A (spouse benefit reduction to 33 percent) would reduce the 1992 poverty rate for women aged 62 or older from 12.7 to 12.1 percent. The poverty rate of wives aged 62 or older would increase slightly from 4.2 to 4.5 percent, but the poverty rate for widows would decrease about 12 percent, from 17.9 to 15.7 percent (table 1).

The impact of Policy A depends on the size of the spouse benefit received. This, in turn, depends on the difference between the spouse benefit based on the husband's earnings and the wife's retired-worker benefit based on her own earnings. About 38 percent of the beneficiary wives who entered retirement in the mid-1990s receive a full spouse benefit, and another 40 percent are dually entitled to spouse and their own retirement benefits (Sandell and Iams 1996).

Under Policy A, wives receiving the full spouse benefit under current law (for example, no retired-worker benefit) would have their spouse benefits cut by a third. Among these couples, the initial poverty rate of 4.2 percent would increase to 5.1 percent (about 21 percent of the poverty rate). The poverty rate for widows who had received full spouse benefits would decrease about 25 percent, from an initial rate of 18.7 percent to 13.8 percent.

Women eligible for their own retirement benefits but also receiving spouse benefits higher than that amount (dually entitled wives) would only have the spouse-benefit portion of their benefit transferred by Policy A. Thus, if the policy were in place in 1992, the poverty rate of dually entitled wives would have increased slightly from 1.3 to 2.2 percent, but the poverty rate for dually entitled widows would have decreased slightly from 15.7 to 14.5 percent.

Policy A does not affect women who have retired-worker benefits higher than the current law spouse benefit. This group is expected to expand among future cohorts of retirement age women (see Sandell and Iams 1996).

Policy B transfers 10 percent of couple benefits regardless of the type of benefits. The poverty rate for couples increases from 4.2 to 4.7 percent, but it decreases about 25 percent for widows—from 17.9 to 13.4 percentage points. If this policy had been in effect in 1992, the poverty rate for the population of women aged 62 or older would have been 11.1 percent instead of 12.7 percent.

Policy C transfers benefits when both spouses receive only retired-worker benefits. It increases the poverty rate of couples only slightly—from 4.2 percent to 4.4 percent—and reduces the poverty rate of widows about 16 percent—from 17.9 percent to 15.1 percent.

Policy D increases the widow benefit formula to 75 per-

Table 1.—Transfer policy effcts on poverty rates for elderly women aged 62 or older, 1992

Marital status	Total number (in thousands)	Current law	Policy A: Reduce spouse benefit to 33 percent	Policy B: Reduce couple benefit to 10 percent	Policy C: Pay one-earner couple benefit	Policy D: Widow benefit 75 percent of couple benefit
All	20,761.80	12.7	12.1	11.1	11.1	12.1
Married	9,466.90	4.2	4.5	4.7	4.4	4.7
Widowed[1]	8,614.10	17.9	15.7	13.4	15.1	15.1
Other	2,680.80	26.3	27.0	26.3	26.3	28.6

[1] Widow poverty rates take into account reductions in Supplemental Security Income.

cent of the couple's benefit. The poverty rate of widows would decrease under Policy D from 17.9 percent to 15.1 percent. Similar to Policy A, Policy D reduces the spouse benefit by a third, but Policy D also reduces the basic benefit PIA formula by 1.5 percent. Consequently, the poverty rate of married couples was slightly higher under Policy D (4.7 percent) than under Policy A (4.5 percent). The overall poverty rate of all women is reduced to 12.1 percentage points under both policies.

Who Gains?

The percentage of women in the population aged 62 or older receiving increased benefits from the four transfer proposals mainly depends upon the percentage of women receiving different types of benefits as widows. Although Policies A, B, and C are all actuarially fair over recipient lifetimes, survivors affected by a proposal gain benefits in specific years. Transfers in 1992 would increase the Social Security benefits 12.7 percent, 25.7 percent, 13.3 percent, and 32 percent for women aged 62 or older under Policies A, B, C, and D, respectively.

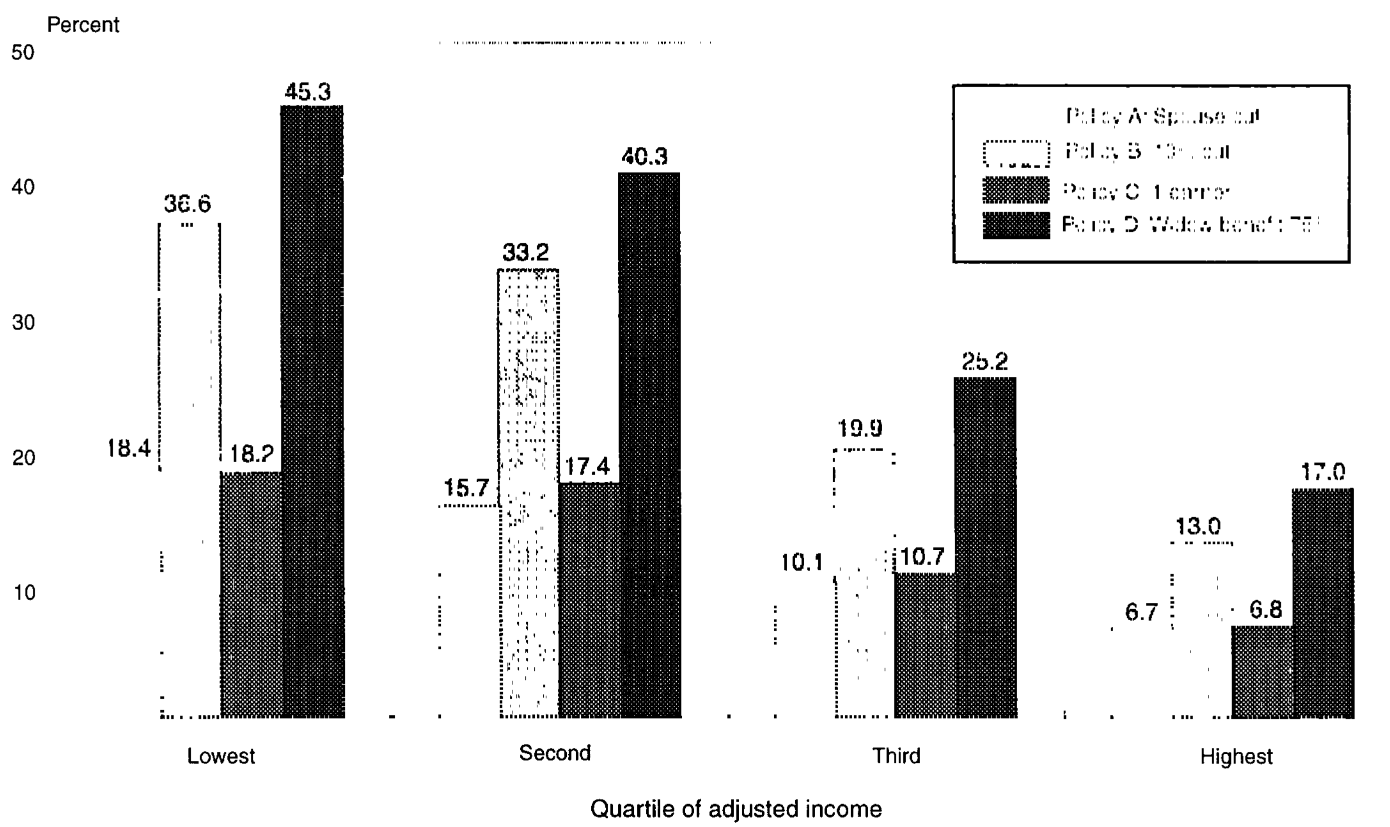
Chart 3 shows the percentage of women within quartiles of the income distribution who received increased income from the proposals. The quartiles are based on family income-equivalence ratios (relative to poverty), which take into account family size as well as money income to account for economic need.[14] Some widows at all income levels gain income under the proposals. Looking at widows in the highest income equivalence quartile, for example, around 7 percent gained income under Policies A and C, and about 13 percent and 17 percent gained under Policies B and D, respectively.

In general, the proposals redistribute income to women who have greater economic needs. A greater percentage of women in the lower quartiles gain benefits (chart 3). The percentage with increased benefits in the lowest quartile is about triple that in quartile 4 under Policy B and about 2.5 times higher than that in quartile 4 under Policies A, C, and D. Although some widows at all income levels receive increased income from the proposals, the policies redistribute income from married couples who are usually economically better off to the widows who are often economically worse off.

Who Loses?

Survivors gain benefits over their lifetime under the proposals, but affected couples lose benefits in particular years. Chart 4 indicates that a much higher percentage of wives losing benefits in 1992 are in the higher income quartiles of aged women. Women in the first quartile (the lowest) were less likely to lose benefits than women in other quartiles. For example, losing benefits under Policy A were about 8 percent of women in quartile 1, compared with about 25 percent of women in quartiles 3 and 4. Because Policy D reduces payments to all beneficiaries, a much higher percentage of

Chart 3.—Percentage of elderly women who gain from policy changes, by quartile of adjusted income



Source: 1991 panel of SIPP matched to SSA records.

women lose income under Policy D, particularly in the higher income quartiles.

IV. Conclusion

This article analyzes the effects of four proposals to address the poverty of elderly widows that were considered by the 1994-96 Advisory Council on Social Security. These proposals transfer benefits from couples to widows, reducing poverty among older women between 5 percent and 13 percent, with no long-run cost to the OASI Trust Fund. If they were in effect, the proposals would have increased slightly the 1992 poverty rate of couples and would have decreased moderately the 1992 poverty rate of widows, consistent with an earlier analysis of 1990 data (Sandell and Iams 1997). The net change is an overall poverty rate decrease among women aged 62 or older.

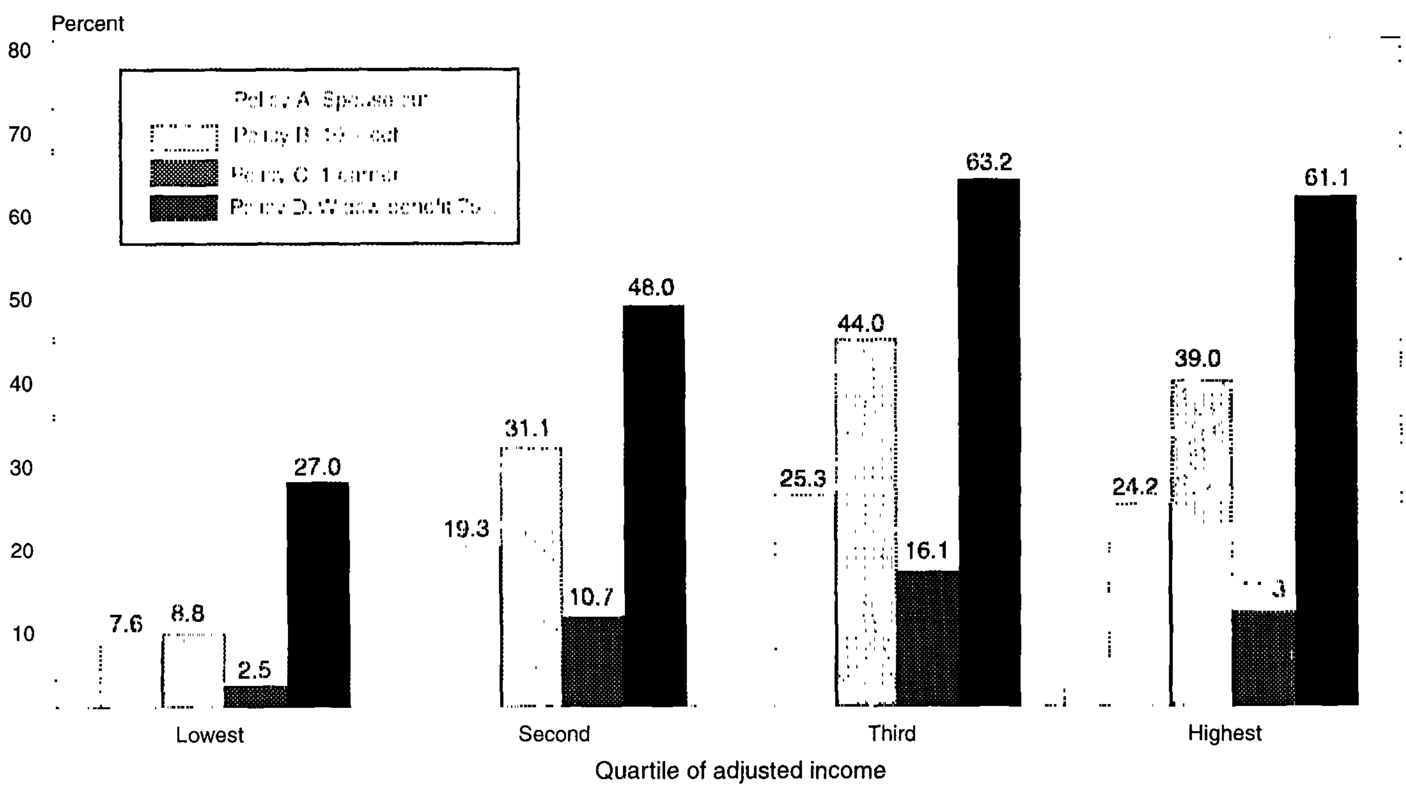
The proposals create similar overall reductions in the poverty rate of widows, but they target different subgroups for benefit reductions and increases. Several tradeoffs emerge among proposals. Policy A reduces the spouse's benefit from 50 percent to 33 percent of the higher earner's benefit. Policy A has its largest effect on poverty on wives in one-earner couples who had limited lifetime earnings, and minimal effect on widows who had substantial earnings (relative to their husbands) over their lifetimes. In contrast, under Policy C, working women in two-earner couples receive additional Social Security benefits (based on their own earnings) as widows rather than as wives. Thus, Policy A shifts benefits for one-earner couples, while Policy C shifts benefits for two-earner couples. If Policies A and C were jointly implemented, their effects on poverty would be additive: Overall poverty would decrease from 12.7 to 11.1 percentage points, and widow poverty would decrease from 17.9 to 12.9 percentage points if the two proposals were combined.

The benefit transfer of 10 percent of couple benefits in Policy B would increase the well-being of most widows without changing the Social Security benefit structure or affecting the equity returns between one-earner and two-earner couples. Policy B would decrease widow poverty from 17.9 to 13.4 percentage points.

Policies A, B, and C make actuarially fair transfers of Social Security benefits to widows, financing the increase through tradeoffs within the Social Security system. These proposals could be implemented as voluntary choices by instituting the mandated choices now required in private pension plans. Given the experience observed under private pension plans, we expect that the majority of couples would choose a voluntary transfer given the overwhelming popularity of the selection of joint survivor options under private pension plans.

Policy D, supported by the majority of the 1994-96 Advisory Council, increases the incomes of widows by providing a survivor benefit of 75 percent of the couple benefit. Policy D increases the income of widows of two-

Chart 4.—Percentage of elderly women who lose from policy changes, by quartile of adjusted income



Source: 1991 panel of SIPP matched to SSA records.

earner couples. But Policy D is financed in part by reduced benefits to never married beneficiaries. It also reduces benefits for one-earner couples. Policy D reduces the amount of inequity from paying higher survivor benefits to one-earner couples than two-earner couples with the same lifetime couple earnings.

One purpose for social insurance is to help provide economic security. The lower poverty rates and the greater prosperity of elderly couples, compared with elderly widows, suggests a way to improve the current distribution of Social Security benefits. Transferring benefits from couples to widows is a cost-neutral way to accomplish this end because expected total lifetime benefits to each family are not changed. Social Security policy may be more effectively examined with a focus on benefits paid to the demographic category (couples and the survivors) rather than on benefit type (for example, retired-worker, spouse, and widow benefits).

Because the pattern of women's earnings and the Social Security taxable maximum on earnings changed, the policy effects on 1992 beneficiaries used in this analysis may differ from those for future retirees. With a combination of intramural and extramural research, the Office of Research, Evaluation and Statistics will estimate components of annual retirement income for retirees in 2020, using the SIPP matched to SSA records of annual earnings (for a projection of Social Security benefits, see Iams and Sandell 1997). With these projected annual income estimates, we plan to evaluate the future effects of policy proposals on future retirees.

Notes

[1] The current analysis presents poverty estimates by marital status for women aged 62 or older based on calendar year 1992. Chart 1 and chart 2 are based on poverty in 1992 for women born in 1930 or before, hence, reaching at least age 62 in 1992. These SIPP poverty rates are slightly lower than the poverty rates based on the March 1993 Current Population Survey (CPS). Martini and Dowhan (1997) document that lower poverty rates in the SIPP than in the CPS occur in most subpopulations of the elderly. Their conclusion is that SIPP finds more recipients for all income sources. They also find that average income amounts were lower in the SIPP than in the CPS, with the exception of Social Security and self-employment income.

[2] SSA makes no gender distinction in calculating auxiliary spouse and survivor benefits. Although either husbands or wives may collect auxiliary benefits, very few men receive these benefits (SSA 1996, table 5.A.1). This article is written for ease of exposition as if wives and widows were the sole recipients of auxiliary benefits.

[3] SSA pays full benefits if the husband did not receive early retirement benefits and if the widow begins benefits at normal retirement age (65) or later. A woman who received reduced retirement benefits before normal retirement age would receive full widow benefits if she does not receive survivor benefits before normal retirement age and her husband did not receive reduced benefits.

[4] See Sandell and Iams (1996) for a discussion of the projected increase in wives with only retired-worker benefits. When their husbands die, most of these women will receive the same amount of survivor benefits as if they did not work at all.

[5] According to the Advisory Council's report (1997, p. 19), the proposed widow benefit formula reflects a concern for the high absolute level of poverty among elderly widows and statistical studies suggesting retired survivors need about three-fourths as much income as retired couples. The Council's report is silent on why spouse benefits should be reduced, but the Council considered the equity issue of one-earner couples receiving more benefits than two-earner couples with the same lifetime earnings. Reducing one-earner spouse benefits reduces this inequity and provides partial funding for the widow benefit increase.

[6] The mean age difference among married couples with a woman born between 1930 and 1945 is 3 years according to our calculations from the 1990 panel of SIPP. These women will be retiring over the next decade.

[7] This is estimated as a joint annuity. SSA's Office of the Chief Actuary estimates that in the next 75 years, a $1 per annum reduction in the joint annuity can finance a $1.45 increase in the survivor's benefit.

[8] Under current law, the widow receives 100 percent of the husband's benefit. Consequently, the current law widow's benefit of the largest earner's benefit in the one-earner couple is the same as a widow benefit equal to a proposed benefit of 75 percent of the couple's benefit. For example, in a one-earner couple, the couple would receive 133 percent of the husband's benefit and the widow would get 75 percent of the couple benefit (100 percent out of 133 percent), which would be 100 percent of the husband's benefit. Of course, the proposal would reduce all benefits by 1.5 percent to make the proposal actuarially neutral.

[9] In order to be actuarially fair, the choice must be binding even if the couple subsequently divorces after choosing a reduced couple benefit. In cases where divorce occurs after election, the decision could not be changed without biasing the fiscal balance. Consequently, the ex-spouse would receive a supplemental benefit upon death of the other ex-spouse. The supplemental benefit payable to the survivor would reflect the agreed upon transfer.

[10] About 91 percent of the women who reported birth before 1931 in the 1991 SIPP longitudinal panel were successfully matched to Social Security benefit records. Our estimates only crudely adjust for this undercount by proportionally increasing estimates of the number of persons affected. We believe that poverty rates are not greatly affected by the undercount.

[11] The simulations estimate changes in actuarially adjusted benefits from SSA's Master Beneficiary Record (MBR) of December 1991. This is estimated as a joint annuity. SSA's Office of the Actuary estimates that in the next 75 years, a $1 per annum reduction in the joint annuity can finance a $1.45 increase in the survivor's benefit. The MBR contains data used to pay benefits. Using the December 1991 benefit amount, we calculated the expected benefits paid in calendar year 1992. We separately calculated the total benefit paid, the benefit.paid as a retired worker, and the auxiliary wife and widow benefit paid in excess of earned retired-worker benefits. Under Policies A, B, and C, only widows who first received Social Security benefits when their husbands were alive receive enhanced benefits. Women who began benefits as widows (that is, who never received benefits as a part of a couple) could not have had couple benefits reduced and, therefore, are not eligible for the transfer. Technically, omitted from Policy A, B, and C transfers are widow beneficiaries with date of initial entitlement different from the date of current entitlement, and dually entitled widow beneficiaries reporting in the SIPP that they were widowed in their most recent marriage

before age 61. Under Policy D, the benefit formula change applies to all widows.

[12] The estimates presented in this article focus on women and ignore increases in benefits to widowers. Most widowers receive retired-worker benefits only and we have no information on their deceased wives' benefits to model effects of our proposals. Because many women marry older men and men have lower life expectancy, the widow is usually the couple survivor and we can model effects of the most common situation.

[13] Our analysis of the 1990 panel of the SIPP found these policies increased the poverty rates of married couples and decreased the poverty rates of widows by 17 to 31 percent, depending upon the policy (Sandell and Iams 1997). The poverty rate among married couples increased from 3.0 to 3.7 percent depending upon the policy. Our previous analysis evaluated a larger spouse reduction in Policy A, from 50 percent to 25 percent, rather than 33 percent of the husband's benefit.

[14] Dividing 1992 family income by the official poverty income threshold is one way of creating an income equivalence ratio taking into account economic need for the appropriate family size. In 1992, the poverty threshold was $8,487 for two aged persons and $6,729 for a single aged individual. This ratio estimates the level of family income relative to need. We estimated the percentage of women who gain and lose within quartiles of aged women defined by their family income equivalence ratio. Our lowest quartile approximates the group living in near poverty. According to Grad (1994 table VII.1, p. 115), 24 percent of aged units and 23 percent of beneficiary units aged 65 or older had income below 125 percent of the poverty line, often termed the "near poverty" level.

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Technical Appendix: Calculating Benefit Adjustments

The simulation calculates benefit adjustments to income from making policy changes. The income equivalence ratio is the sum of monthly family income levels relative to the sum of monthly poverty thresholds for calendar year 1992. Included in the sample are women born in 1930 or earlier who completed interviews in Waves 4-6 of the 1991 panel of the longitudinal SIPP and were matched to SSA records of earnings or benefits. The match rate for these women was 90.8 percent. The population count in table 1 is based on the entire panel, and the poverty rates are based on the matched panel. The data are weighted by the longitudinal panel weight.

A key item is the type of benefit received by the panel. The classification relied upon the December 1991 benefit status gathered from the SSA Master Beneficiary Record in early 1995. The record indicated the type of benefit and amount of payment in December for the primary payment and for the excess of a dual payment above the retired-worker payment for dually entitled beneficiaries. The classification of dually entitled beneficiaries with current payment or adjusted payment for dual benefits reflected the beneficiary code of the auxiliary spouse or widow entitlement. The full payment without actuarial reduction was also available for the primary payments to husbands and wives but reflected the full payment status in 1995. We omit 25 sample cases of wife beneficiaries who became widow beneficiaries during 1992 because the impact of change is mixed across policies. This omission had very little effect on the results lowering the poverty rate of married women by 0.2 percentage points.

Note that benefit increases to widows do not occur if the widow beneficiary started benefits as a widow. This occurred to those having the same date of current and initial entitlement. For dual widows, a test was made that the woman was born less than 62 years before the reported year of termination for the last marriage.

Policy A reduces the benefits of spouse beneficiaries by about a third—from 50 percent of a husband's benefit to 33 percent of a husband's benefit. If the wife received benefits as only a wife or was a dually entitled wife with her own PIA less than 33 percent of her husband's PIA, then the full reduction was made. The reduction was estimated as an annual amount of 0.34 times her benefit paid in December 1991. (The December payment assumed to be paid in January and throughout the year.) If the wife was a dually entitled wife with a PIA between 0.33 and 0.5 of her husband's PIA, then the benefits paid as an auxiliary in December 1991 were annualized as the reduction amount. Policy A increases the benefits of widows who received a spouse benefit. If the widow was a full widow beneficiary or a dual widow with benefits and a PIA less than 0.33 of her husband's PIA, then income was increased by an annualized amount of 34 percent of the widow benefit—twice the amount taken as a spouse because the marriage would last twice as long as being a widow. A dual widow with a PIA between 0.33 and 0.5 of her husband's PIA, received an annualized amount of the proportional difference, times the widow benefit, times $1.45 actuarial adjustment.

Policy B reduces the benefits of couples by 10 percent of their December 1991 benefits estimated as an annual amount for couples in which both received benefits in December 1991. The widow increase was 1.45 times that amount paid to women reporting they were widows in December 1991. A retired-worker beneficiary reporting herself as a widow received an amount based on calculations from the 1990 SIPP (see Sandell and Iams 1997) as 1.72 times the woman's benefit. The 1.72 reflected the average couple benefit total relative to the wife's benefit when both husband and wife were retired workers.

Policy C pays a one-earner benefit and transfers the couple benefits above that level to the widow. The reduction was estimated as the annual amount of the couple benefit total over 1.5 times the larger benefit paid to couples, with both the husband and wife only receiving retired-worker benefits. The increase to dual widows is based on the amount of retired-worker benefits paid to dual widows above the auxiliary amount. The increase is paid if the auxiliary benefit amount is less than half of the widow benefit amount reflecting a payment to a retired-worker wife.