

NEVER-MARRIED LIFE-LONG MARRIAGE RETIRED MARRIED WIDOWED UNMARRIED
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Social Security: Out of Step with the Modern Family

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Social Security: Out of Step with the Modern Family

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PREFACE

The Social Security reform debate has scarcely noted the policy implications of changes in family structure. The mismatch between today's benefits and the composition of many modern families leaves many individuals at risk of poverty, provides others with disincentive to marry, and discourages some spouses from seeking jobs.

In September 1999, the Urban Institute and the Gerontology Institute at the University of Massachusetts–Boston sponsored a seminar in Washington, D.C., to examine this mismatch, “Evolving Family Structures and Social Security Reform.” Participants discussed the divergence between demographic trends in family structure and rules governing Social Security benefits for workers and their spouses.

This booklet summarizes many of the current system's shortcomings explored by seminar participants. The seminar discussion also provides the background for a forthcoming conference and book that will explore how Social Security can better accommodate the changing family. Like other government programs, Social Security must be updated to reflect current needs if it is to retain public support.

The political debate
about reforming
Social Security
has all but ignored
questions about
protecting the
most vulnerable
seniors.

SOCIAL SECURITY: OUT OF STEP WITH THE MODERN FAMILY

WHAT'S AT STAKE

Over the past six decades, Social Security has played a crucial role in lifting many elderly out of poverty. But it has the capacity to do more. Current benefit payments are more than sufficient to almost erase poverty among the 10.8 percent of retirees who now are poor. However, unless the program is adjusted to reflect the reality of today's families, important segments of the aging population—particularly widows, divorcees, other unmarried women, and minorities—face an increasingly uncertain future.

Ironically, certain Social Security rules may lead to rising levels of elderly poverty. Set in 1939, they have not kept pace with the dramatic changes in family structure. Reforms that focus solely on the program's financial structure, as most current reform proposals do, overlook some of Social Security's most critical failings. Indeed, such limited change is akin to adding gas to a 1939 Ford without modernizing its engine and brakes or installing seatbelts and airbags.

“Social Security benefit rules aim primarily to provide an adequate income to people in old age,” explains Eugene Steuerle, a senior fellow at the Urban Institute and cohost of the conference. A typical couple retiring today can expect lifetime benefits of more than \$250,000, and some individuals receive windfalls of additional family benefits often unrelated to their needs or the contributions they have made. “But all of a sudden, we are realizing that the percentage of people, especially women, who will qualify under these old rules is

going to fall significantly,” Steuerle continues. “We could end up with more elderly women in relative or even absolute poverty in the future. So, that should force us to reexamine the rules.”

Despite the urgency of addressing such concerns, the political debate about reforming Social Security has all but ignored questions about protecting the most vulnerable seniors. Instead, talk has focused on the merits of private saving versus the current program structure and on issues of the Social Security Fund’s solvency.

“If reform only restores solvency without also altering benefit provisions in light of changing family structure,” warns conference cohost Yung-Ping Chen of the Gerontology Institute at the University of Massachusetts–Boston, “then Social Security will have accomplished a great feat of ensuring that scheduled benefits will be honored. But it will have missed an opportunity to also maintain its traditional mission of protecting the largest number of vulnerable members of society.”

TRENDS IN MARITAL STATUS

	1970	Today
Married adults	68 percent	56 percent
Unmarried adults	38 million	77 million
Never-married adults	16 percent (21.4 million)	23 percent (44.9 million)
Unmarried heterosexual couple households	523,000	4 million
Married adults by race and ethnicity:		
Whites	73 percent	63 percent
Blacks	64 percent	42 percent
Hispanics	72 percent	58 percent
Never-married adults by race and ethnicity:		
Whites	16 percent	21 percent
Blacks	21 percent	39 percent
Hispanics	19 percent	30 percent

Source: Data from the U.S. Census Bureau as compiled by Yung-Ping Chen of the Gerontology Institute at the University of Massachusetts–Boston, 2000.

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THE TREATMENT OF MARRIED COUPLES

Since its inception in 1935, Social Security has provided both benefits to workers based on earnings and auxiliary benefits to spouses. The benefit structure reflects that era's idealized family structure—the husband as sole earner with a dependent wife who remains at home, generally to raise children. When the earner reaches retirement age, the household receives Social Security benefits totaling the earner's allotment plus half that amount for the spouse. If the earner dies, the surviving spouse gets the full earner's share.

Although these provisions are decades old, they generally have not been updated to take into account two-earner households. As long as both spouses are alive, the second earner (or earner with lower lifetime earnings—usually, but not always, the wife) receives either a benefit based on her own earnings or half of the spouse's worker benefits, whichever is larger. As two-earner households become the norm and the "typical" family becomes harder to define, the failure of the Social Security system to adapt results in glaring inequities.

Demographic, economic, and social changes. The typical American household no longer looks like the 1939 portrait. Fewer people marry, more women participate in the labor force, and domestic relationships, in general, are more fluid. Marriage rates are down in all segments of the population, but especially among minorities. More people never marry, many never remarry, and marriages do not last as long.



THE ORIGIN OF SPOUSAL BENEFITS

Social Security is a program born to an industrial era. Whereas older members of an agricultural society could maintain their usefulness by tailoring responsibilities to ability, the physical demands of factory work were often impossible to meet if not in the prime of life. As work changed, many people spent a period at the end of life unable to work or financially support themselves. Federal policymakers legislated Social Security in 1935 to alleviate elderly poverty and dependency by providing retired workers with a reliable source of income. However, before its first payments could be made in 1940, its trust fund had to be built up through contributions. The intervening years gave policymakers a chance to tinker with Social Security law.

Spousal benefits were initially conceived as a way of boosting low Social Security payments. Before 1940, the Social Security Board did a more thorough study of old-age dependency and realized that it was a larger problem than initially thought; about 65 percent of all elderly were unable to support themselves, the Board estimated. The 1937–38 Advisory Council on Social Security wanted to address this problem. They recommended that “...the time seems ripe for the revision of the program to afford more adequate protection to more of our people.”

One option was to increase benefits for all workers regardless of whether they had families. This, the Council realized, would involve adding “a large and permanent burden of cost” to the retirement program. Another option was to provide wives with a supplemental benefit. Because it only boosted payments for men with families, the auxiliary wives’ allowance was considered a superior method of enhancing adequacy without imposing large burdens of cost. Payment to wives, the Council noted, “will increase the average benefit in such a manner as to meet the greatest social need with the minimum increase in cost.” However, this windfall was not given equally to all wives, but rose with a husband’s earnings. As a consequence, the rich, especially in the early years of the program, benefited more than the poor.

A major component
in the rise of
working wives
was the decline
in stay-at-home
mothers.

The shape of the American workforce has changed even more dramatically than the makeup of the typical household. Just as computer chips and satellite positioning revolutionized the driving experience beyond the wildest fantasies of the designers of the 1939 Ford, women's wholesale entrance into the labor force after World War II transformed family economics in ways unimaginable to the 1939 designers of Social Security rules.

As Theresa J. Devine of the Congressional Budget Office explains, the proportion of women as workers "has gone through the roof. The biggest increases came in the 1970s and 1980s." By the 1990s, the proportion of women in the workforce stabilized at record highs. In 1948, only 32.7 percent of women were in the labor force, Devine calculates; by 1996, that proportion had nearly doubled to 59.3 percent. The table below shows the changes in labor force participation among married women between 1980 and 1997, according to the Congressional Budget Office.

PERCENTAGE OF WIVES IN THE LABOR FORCE BY AGE

	1980	1997
18 to 24		
No children under 6 years	88	82
Children under 6 years	60	68
25 to 34		
No children under 6 years	81	85
Children under 6 years	59	72
35 to 44		
No children under 6 years	71	81
Children under 6 years	51	68

Source: Congressional Budget Office calculations from the 1981 and 1998 March Current Population Surveys.

Meanwhile, between 1948 and 1996, the percentage of men in the labor force had declined from 86.6 percent to 74.9 percent.

As women spent more time in the labor force, their earnings went up both in absolute terms and as a proportion of household income. But, for the most part, their earnings have remained less than those of men. In 1980, women on average contributed 22 percent of a couple's earnings. By 1996, the proportion was 31 percent, Devine calculates. In 1980, only 16 percent of wives provided at least half the couple's earnings; 23 percent did so by 1996.

In general, the higher the husband's earnings, the smaller the proportion of earnings brought home by the wife. For example, wives ages 45 to 54 years (the prime earning years) whose husbands earned in the lowest 10 percent contributed on average 60 percent of the family's income. Wives in that age group whose husbands' earnings were above the 90 percent mark provided a mere 12 percent on average of the household income. Because they grow along with the primary earner's wages, spousal benefits—initially designed to help women avoid poverty in later years—grant significant benefits to the rich.

Changes in social norms accompanied the demographic and economic shifts in American households during the latter decades of the 20th century. The age of first marriage rose for both men and women. It became common for healthy, married women to work outside the home regardless of their child-raising responsibilities. And



TWO COUPLES: SAME EARNINGS, DIFFERENT BENEFITS.

The Greens and the Whites each earn twice the average wage. But, while Tom Green is the sole breadwinner, Ted and Becky White each earn the same amount. When Tom Green retires in 2032, the couple receives a Social Security benefit of \$37,769—Tom's retired worker benefit of \$25,179 plus Beth Green's spousal benefit of half that amount, \$12,590. When Ted and Becky White retire in 2032, each spouse gets a retired worker benefit of \$17,358, a family total of only \$34,716. That's \$3,053 less than Tom and Beth's benefit.

Tom Green dies. Beth Green moves up from spousal benefit to survivor benefit and receives \$25,179. But, when Ted White dies, Becky White continues to get only her retired worker benefit of \$17,358. Taking into account life expectancy, Tom and Beth can anticipate lifetime benefits of \$549,694, while Ted and Becky are likely to receive \$100,103 less—only \$449,561.



TWO WOMEN: NO CONSIDERATION OF NEED. Joan Smith is married to a man who makes \$55,000 and retires in 2000. She doesn't work outside the home and has no children, but she receives a spousal benefit of \$8,504 and a survivor's benefit of \$17,008. Sharon Smith is a single mom who raised two kids on an income of \$15,000 a year. She receives a retired worker benefit of just \$7,967 and receives no survivor's benefit. Even though Sharon worked more hours, paid more taxes, and raised more children than Joan, Sharon receives \$537 less while Joan's husband is still alive and \$9,041 less after Joan's husband has died.

domestic relationships became increasingly varied—single-parent families, serial marriages, domestic partner relationships, and multi-generational families proliferated.

“Shifts in social norms invite modifications in established policy,” Francis G. Caro, director of the Gerontology Institute at the University of Massachusetts–Boston, warns. “If a major government program is to retain public support, it must continue to reflect prevailing social norms.” Social Security rules do not.

Resulting inequities. Since 1939, while American household demographics, economics, and social norms were undergoing a huge metamorphosis, Social Security rules remained basically the same. As a result, inequities, anomalies, and a variety of unintended consequences crept into the system.

Accompanying the trend toward two-earner households has been the increasingly even split between earnings of husband and wife. But couples whose earnings are more evenly divided (say, one spouse earns \$30,000 and the other \$20,000) almost always fare worse than those whose earnings are more lopsided (\$40,000 versus \$10,000, for example). This inequity is especially severe when it comes to survivor benefits for the working spouse who makes slightly less than the primary earner.

The spouse who earns less than the primary earner receives little or no additional benefit for his or her work, which can be a disincentive to work. This disincentive applies both to so-called secondary workers who earn much less than the primary worker and to those who make almost the same amount of money.

In two-earner households with lopsided incomes, the low-earning spouse often gets nothing at retirement beyond the spousal benefit that would have been forthcoming regardless of whether he or she worked. At the other end of the spectrum, even the spouse who earns almost as much as the primary worker receives retired worker benefits that are only slightly higher than spousal benefits. And this is only while the primary worker is still alive, because survivor's benefits would then exceed the secondary worker's retirement benefits.

What causes these inequities? Social Security was designed to provide needed social insurance for families and enable workers to better care for their dependents.

Spousal benefits might appear to be a fair way to compensate parents for raising children, but a closer glance quickly dispels this illusion. Since spousal benefits are greater for those married to higher earners, higher-income households in general get more for raising their children than lower-income households—producing the perplexing result that child-raising in high-income households is more valued by society, at least from a benefit perspective.

Spousal and survivor benefits have evolved to bear little relation to need or equity. This especially short shrifts single mothers who work outside the home—a growing phenomenon.



SECONDARY WORKERS VERSUS PRIMARY WORKERS.

Jorge Rodriguez earns \$40,000 a year, entitling him to a retired worker's benefit of \$14,758 when he retires in 2000. His wife, Inez, earns \$15,000 a year, which yields a retired worker's benefit of \$7,967. Granted, that's more than the spousal benefit of \$7,379—but not much more, only \$588 a year. In fact, if instead of Inez working at all, Jorge earned that \$15,000 on top of his current salary, he would be entitled to \$17,008 a year at retirement and Inez would get \$8,504 in spousal benefits. Thus, if Jorge earns the additional \$15,000, their total benefit would be \$2,787 higher than if Inez earned the \$15,000. When either Jorge or Inez dies, the survivor gets \$2,250 more if Jorge, rather than Inez, had earned the extra \$15,000.

Social Security's
10-year rule for
receiving benefits
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THE TREATMENT OF DIVORCED COUPLES

Social Security rules regarding divorce have evolved over the decades, but like spousal benefits, they still lag far behind reality. The original 1939 legislation paid little attention to how the breakup of a marriage would affect spousal and survivor benefits. If a divorced spouse who had spent little or no time working lost eligibility to spousal benefits at the end of a marriage, he or she could be left destitute at an old age.

As the incidence of divorce grew, this shortcoming could no longer be overlooked. In 1965, policymakers included a provision allowing the lower earner of a married couple to keep his or her benefits upon divorce, provided the marriage had lasted at least 20 years. But divorce grew more commonplace, the duration of marriages shortened, and eventually this provision left too many people unprotected. Spousal and survivor benefits were extended to those with at least 10 years of marriage in 1977. If the primary worker remarries, the divorced spouse still gets the benefits. If the divorced spouse remarries, however, any claim to benefits ceases.

Demographic changes. Today, more people get divorced after shorter marriages. And fewer divorced people are getting remarried. In 1970, divorcees who hadn't remarried totaled 4.3 million people—3 percent of adults. By 1996, that number had quadrupled to 18.3 million and the proportion had more than tripled to 10 percent. Of every 10 couples who wed during the 1980s, the Census Bureau predicted that four eventually would divorce. According to Urban Institute calculations, while only 6 percent of retirees were divorced in the early 1990s, 17 percent would be divorced in 2020.

In 1990, marriages that ended in divorce averaged only 7 years. Half the marriages of divorced women ages 25 to 29 lasted less than 3.4 years. Generally, the older the woman, the longer her marriage. Thus, among divorced women ages 60 to 69, less than one-fifth had been married for under 10 years. So, the 10-year rule may affect only a small portion of current retirees, but it will probably disqualify far more people from receiving spousal or survivor benefits in decades to come as today's divorced twenty-somethings reach retirement age.

Resulting inequities. Social Security's 10-year rule for receiving benefits after divorce, along with the treatment of those who remarry, results in bizarre anomalies and unequal treatment. The dramatic increase in divorce over the past 60 years will only intensify these unintended consequences as divorced individuals enter retirement age.



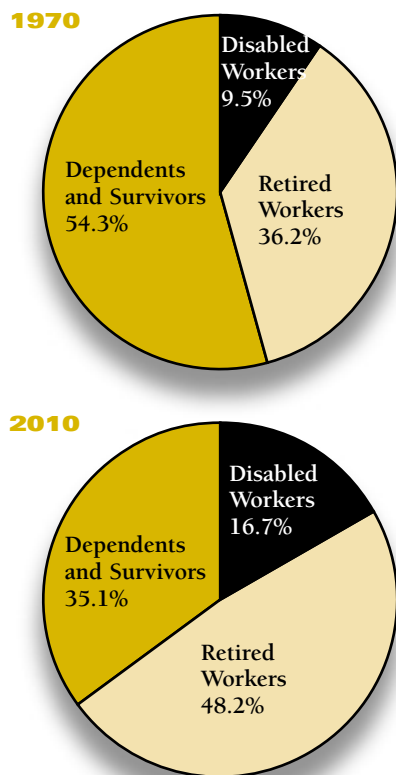
SOCIAL SECURITY AND DIVORCE—A FEW OF THE QUIRKS

- John and Judy Hall end their marriage after 9 years and 11 months. George and Rita Ball obtain a divorce after 10 years and 1 month of marriage. Despite a difference of only two months in the longevity of their marriages, Judy receives no benefits while Rita gets full spousal and survivor benefits.
- Edward Hunter is married five times, each for more than 10 years. John Joiner remains married to the same woman for 60 years. The two men both make the same wages and pay the same taxes, but Edward generates several times more Social Security benefits that other taxpayers (like John) must provide.
- Carlotta Cabot is an affluent divorcee with an independent income. She receives half of her former husband's benefit as long as he lives. When he dies, she gets his full benefit. The amount she

receives bears no relationship to what she needs, only to the life span of her ex-husband. Indeed, young divorcees of older workers are likely to receive more in lifetime benefits than similarly situated divorcees of younger workers because the former are more likely to get survivor benefits—twice the spousal benefit—for a longer period of time.

- Betty Boyle divorces affluent Gary Boyle and receives substantial spousal benefits. Now she wants to marry Harry Doyle, a man of much more moderate means. However, her spousal benefits as Mrs. Doyle would be much less than those as the ex-Mrs. Boyle. The Social Security divorce rules in effect create a marriage penalty.

COMPOSITION OF NEW BENEFICIARIES



Note: New beneficiaries are those awarded benefits in each year. Dependents and survivors include wives/husbands, children, widow(er)s, widowed mothers/fathers, and parents.

Source: For 1970, based on data from the 1998 Annual Statistical Supplement to the Social Security Bulletin, Social Security Administration. For 2010, based on unpublished estimates from the Office of the Chief Actuary, Social Security Administration.

POVERTY AND THE CHANGING FAMILY

Over the decades, Social Security played a vital role in lifting the elderly out of poverty. Thus, poverty rates among seniors dropped from 35.2 percent in 1959 to 10.8 percent today. So, the biggest irony in the mismatch between new family structures and old Social Security rules is the likelihood that Social Security may actually bear some responsibility for greater poverty among more of the elderly. Already, there is a division between men and women. In 1997, the poverty rate for women age 65 and older was 13 percent; for men that age it was only 7 percent. Because minority women are both disproportionately unmarried and in lower-paying jobs that offer less chance for advancement, they are even more likely to be poor.

The problem is more a result of omission than commission: a growing proportion of the elderly are not eligible for the auxiliary Social Security benefits initially adopted to help prevent poverty for women in old age.

Social Security statistics depicting the categories of new beneficiaries illustrate this trend.

As these numbers show, the proportion of dependents and survivors is declining as the percentage of retired workers rises. This decline partly reflects the increased labor force participation of women. A growing proportion of working women are single heads of households whose earning power is limited by their child-raising responsibilities. The retired worker benefits they will receive on the basis of their contributions are likely to be relatively less than the spousal or survivor benefits they might have expected in an earlier era—even after paying no taxes at all. These statistics also reflect the

decrease in the proportion of women who qualify as dependents and survivors because they never married or they divorced before they reached the 10-year cutoff for eligibility. Together, these and other projections foretell an increase in income inequality among the elderly.

Looking ahead to 2020, Karen Smith of the Urban Institute describes how “income is becoming increasingly unevenly distributed—the rich are getting richer and the poor are getting poorer.” And, she continues, “elderly poverty rates may increase dramatically for the less educated and those who never married.”

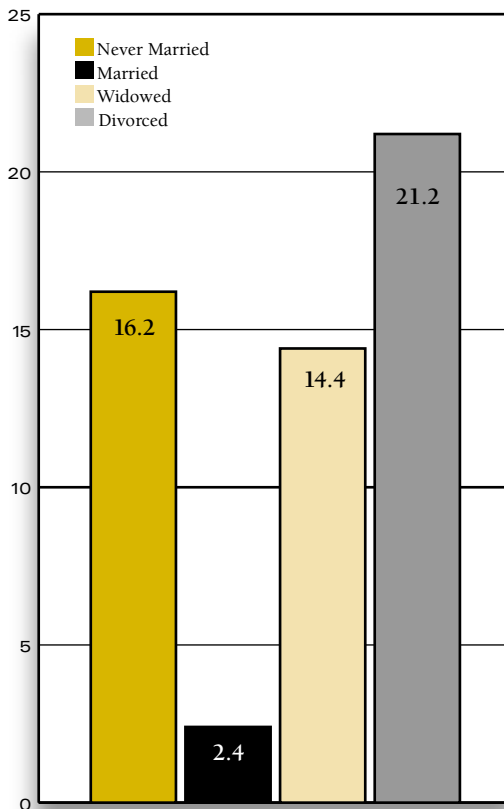
Unmarried older people are much more likely to be poor than those who are married, as the figure at right shows.

By 2020, the never-marrieds are expected to account for 29.4 percent of retirees below the poverty level, according to this Urban Institute projection.

As the new century progresses, the country is growing older: the elderly compose an ever-increasing portion of the population. With the growth in never-married and divorced elderly, single seniors are expected to make up a greater percentage of the poor population in the future.

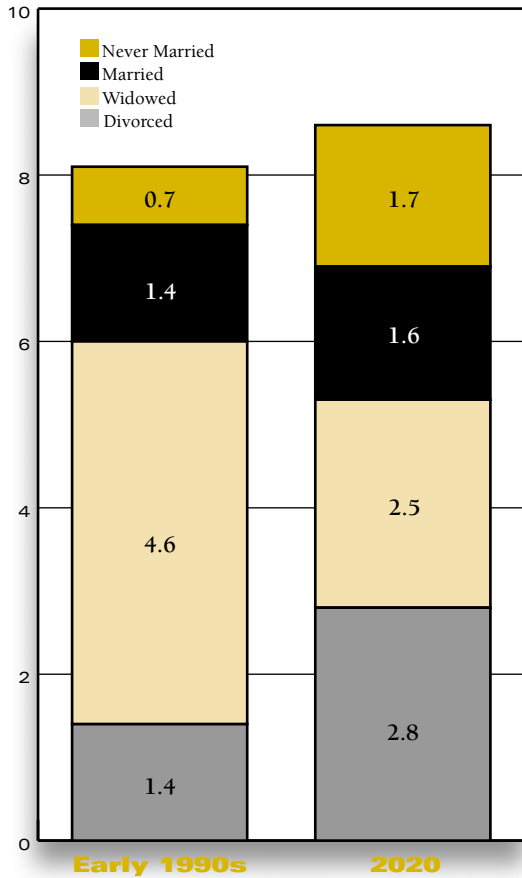
The bottom line is that overall poverty rates among the elderly may rise in both absolute and relative terms because the proportion of aging women—many of them minorities—who will be disqualified from receiving spousal and survivor benefits will increase. Meanwhile, Social Security benefits in general are rising and some seniors are realizing windfall benefit payments simply for being married.

PERCENT OF RETIREES BELOW POVERTY. By Marital Status, Early 1990s



Source: Urban Institute, 2000

CONTRIBUTIONS TO OVERALL POVERTY RATES OF RETIREES. By Year and Marital Status



Source: Urban Institute, 2000

THE NEED FOR REFORM

Social Security rules designed mainly for one-earner, married-couple families are out of place in today's world of two-earner families, single-parent households, short-lived marriages, and domestic relationships that don't involve marriage at all. This mismatch deters real benefit increases and may even increase poverty among the elderly—the exact opposite of what Social Security was designed to achieve.

Fortuitously, Social Security reform is a priority on many agendas. Unfortunately, debate on how to approach saving and how to ensure the fund's solvency has squeezed out other issues. Still, some current proposals widen the discussion by seeking to amend the benefit formula or the marriage rules to bring Social Security in line with today's family.

One such proposal offers greater protection to the low-income elderly by establishing a minimum benefit. No matter how low one's retired worker benefit or spousal/survivor allotment, the elderly who work the required number of years (and their spouses or survivors) would be entitled to a minimum payment—usually pegged at some relative poverty threshold. Another proposal looks at ways to implement earnings or benefit sharing, combining a couple's earnings and dividing the credits between them. If they divorce, each half of the shared earnings or benefit is portable, so many of the inequities faced by two-earner couples are removed along with the arbitrary 10-year rule. More thorough analysis of these and other alternatives is required.

These proposals appear to be moving in the right direction. Steuerle suggests that however it is accomplished, “benefits should be granted to all spouses in a more equitable fashion, instead of continuing a system that inadvertently favors wealthy spouses. Social Security's benefit structure should accommodate the conditions and needs of today's families.” Otherwise, the 1939 Ford model of Social Security could leave a generation of retirees financially stranded.

P A R T I C I P A N T S

EVOLVING FAMILY STRUCTURES AND
SOCIAL SECURITY REFORM

Urban Institute, September 1999

Francis Caro, Gerontology Institute,
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R E L A T E D R E S O U R C E S

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The Retirement Project



IN 1997 THE URBAN INSTITUTE BEGAN THE RETIREMENT PROJECT, A multiyear research effort that addresses the challenges and opportunities facing private and public retirement policies in the 21st century. As the number of elderly Americans grows more rapidly, Urban Institute researchers are examining this population's needs. The project assesses how current retirement policies, demographic trends, and private-sector practices influence the well-being of older individuals, the economy, and government budgets. Analysis focuses on both the public and private sectors and integrates income and health needs. Researchers also evaluate the advantages and disadvantages of proposed policy options. Drawing on the Urban Institute's expertise in health and retirement policy, the project provides objective, nonpartisan information for policymakers and the public as they face the challenges of an aging population. The Urban Institute's Retirement Project is accessible on the Web at <http://www.urban.org/retirement>.

A B O U T T H E I N S T I T U T I O N S

The Gerontology Institute

The Gerontology Institute, founded in 1984, and the Gerontology Center of the University of Massachusetts–Boston comprise this country's leading centers for the academic study of social gerontology. The mission of the Gerontology Institute, and more broadly of Gerontology at the University of Massachusetts–Boston, is:

- To expand the knowledge base of and focus attention on the economic, social, and political issues and problems facing the aging population.
- To strengthen the ability of and provide the opportunity for older people to make productive contributions to aging services and in public policy development for the elderly.

The Urban Institute

The Urban Institute is a nonprofit policy research organization established in Washington, D.C., in 1968. Its objectives are to sharpen thinking about society's problems and efforts to solve them, improve government decisions and their implementation, and increase citizens' awareness about important public choices. Originally focusing on urban problems, the Institute's research agenda now includes the study of national issues that reflect, respond to, and at times anticipate the changing needs of our society. In recent years, this mission has expanded to include the analysis of similar problems and policies in developing countries, eastern Europe, and the Russian Federation.

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