

Prospects for Social Security Reform

Edited by Olivia S. Mitchell, Robert J. Myers, and
Howard Young

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Frontispiece: Special Treasury securities, stored in a federal government filing cabinet in West Virginia, represent \$700 billion in Social Security Trust Fund assets. Photo: Jeff Baughan.

Chapter 16

Women as Widows Under a Reformed Social Security System

Karen C. Holden

The U.S. social security system has two missions: to insure workers and their immediate families against the loss of income due to workers' disability or retirement, and to provide those benefits in a way that favors workers and families who are less likely to be otherwise insured. The current debate over the structure of social security is in large part a discussion over the attributes of individuals and families to whom redistributive benefits are paid, and the current financial importance and social value of these benefits. Women, more often than men, are the beneficiaries of the redistributive components—as recipients of spouse and survivor benefits and of the higher replacement of covered earnings for low-wage workers—so the debate is about the value to women and their families of retaining these redistributive benefits.

This chapter focuses on the economic and social rationale for and value of social security survivor benefits. We first describe the historical reasoning for the provision of survivor benefits, and for their payment without actuarial reduction in the married worker's benefits prior to death but subject to an implicit means test. Understanding the motivation for the structure of survivor benefits is the first step in debating whether they remain economically and socially relevant today. We next review recent findings about the economic consequences of widowhood during the early 1990s. This discussion is followed by discussion of the treatment of widows under the two proposals of the recent Advisory Council on Social Security that include individual accounts. Whether a widow's economic status improves under reform proposals that would provide greater individual discretion over the payment of survivor benefits will depend, in part, on whether the widow shares in the individual accounts of her deceased husband, in the form of either a joint-and-survivor annuity elected at the husband's retirement or the inheritance of undistributed accumulations at his death. A review of

results from an analysis of predictors of the joint-and-survivor selection, presented in the final section, suggests the role of regulatory policies governing the bequeathing of individual accounts to surviving spouses.¹

A Brief History of Social Security Survivor Benefits

The social security system is sometimes described as based on a now-outmoded “traditional” view of the family, though in fact the framers of the social security system were quite sophisticated. Benefit proposals did take account of the greater prevalence of one-earner couples at that time, but women were not expected to remain permanently out of the work force. The 1937–38 Advisory Council on Social Security recommended benefits for younger widows only if they were caring for their deceased spouses’ minor children on the basis that “It is normal for a large majority of younger widows without dependent children to reenter employment” (Brown 1977: 31). Benefits for older widows were argued largely on income adequacy grounds, targeting a group of individuals in need of additional income “to tide themselves over the period of income stoppage for which social insurance benefits are *payable without the necessity of recourse to public assistance*” (Burns 1949: 413, emphasis added).

Upon that Advisory Council’s recommendation, the 1939 Social Security Amendments provided for a supplemental benefit to aged wives and widows (if 65 and older), but it also imposed a “dual entitlement” provision. This mandated a dollar-for-dollar reduction in spouse and survivor benefits if the wife or widow received her own retired-worker benefits.² For this reason, it is more accurate to characterize the original social security model as one that overlaid a strict earnings-related insurance system offering women and men identical retired-worker benefits with an income-transfer system whose provisions were akin to means testing in other income-transfer programs. Targeting supplemental benefits to wives and widows was considered to be consistent with the adequacy goals of the social security system during the early years of the program, at a time when retired-worker benefits were low and most married women would be unlikely to contribute much earnings-based retirement income toward the consumption needs of the married household, or toward their own consumption needs when their husbands died. At the same time, the adequacy goals motivating these benefits also dictated reduced benefits for married women and survivors when other sources of income were available — principally their own retired-worker benefits accompanied, perhaps, by pension income connected to longer market careers.

Dramatic increases in labor market attachment by women during the second half of the 20th century, along with changes in family structure, have made the dual entitlement provision an increasingly apparent factor in determining the benefits of married women. In 1960, 57 percent of female

social security beneficiaries were eligible for benefits solely as a spouse or survivor, but by 1995 this was true for only 37 percent of female beneficiaries. Conversely, in 1960, only 9 percent of all female retired-worker beneficiaries were dually entitled—that is, eligible for both a retired-worker benefit and a spouse or survivor benefit higher than their own retired-worker benefits; by 1995, 43 percent of all retired-worker beneficiaries were dually entitled (Social Security Administration 1997).³ These changes would be expected in a population in which paid labor market activity is an increasingly important component of women's lives. At the same time, women's lengthening work careers have led to a rise in the percentage of female social security beneficiaries who experience (and are aware of) small or no marginal gains in their social security benefits with longer years of covered employment. Every proposal for reform—including those of the recent Social Security Advisory Council—embodies a view about the value of these benefits to individuals and families.

The Continuing Vulnerability of Widows

As described, during the 1930s, the relatively low incomes of elderly couples and widows motivated the provision of spouse and survivor benefits (paid initially only to women). Today, the poverty rate for families headed by a retired worker now lies below rates for all working-age families with a male present, a gain attributable to increases in the real wages of workers and to improvements in the social security benefit formula. Despite improvements in the income levels of older households over the past several decades, including those of women living alone, incomes of widowed women remain substantially below those of married households, even when household incomes are adjusted for differences in consumption needs.

Research using data from the 1970s and early 1980s attempts to separate the contribution to the relatively low income of widows of widowhood itself from the relatively low income of about-to-be widowed households (Bound et al. 1991; Burkhauser, Holden, and Feaster 1988; Hurd and Wise 1989). The picture emerging from these studies is that while a share of the lower average income of widows and intact couples, widowhood itself had a large, negative impact on the economic wellbeing of women widowed during those decades. Since then, women's labor-force participation rates have continued to rise, the life insurance and pension industries have expanded survivor policy options, and pension legislation has been passed that aimed to increase the share of a couple's resources paid to a widow after her husband's death (e.g., the 1974 Employee Retirement Income Security Act and the 1984 Retirement Equity Act). These forces might be expected to reduce the impact of widowhood on women more recently widowed.

A recent study by Holden and Zick (1997) shows that even for women widowed during the 1990s, widowhood continued to be accompanied by a

large and abrupt decline in income. Figure 1 shows the pattern of average monthly income-to-needs ratios of women whose widowhood was observed over the 1990, 1991, and 1992 panels of the Survey of Income and Program Participation (SIPP). These "eventually widowed couples" are defined as women who at the first SIPP interview were 40 or older, married with husbands present, and whose husbands died at some point during the 32-month SIPP panel, after which the widows were observed for at least one interview as a widow.⁴ Figure 1 also shows average monthly income-to-needs ratios for a comparison group of "intact couples" in which the wife was also 40 and older at the first interview but who remained married throughout the 32-month SIPP panel. This comparison group is presented as an estimate of the income changes that might otherwise have been observed among the eventually widowed couples but for their having been widowed. In this way it is possible to separate the contribution to the relatively low income of widows of pre-widowhood differences in income levels (which may or may not be attributed to pending widowhood itself), changes in real income upon widowhood that may be attributable to broader economic forces (e.g., to high rates of inflation), and the change that is attributable to widowhood itself. Since intact couples in the SIPP sample are on average younger than eventually widowed couples, the age distribution of the intact-couple group are "matched" to that of the eventually widowed couples. This forced comparability in age structure means that differences in income and income change between the two groups of women are net of differences in age structure.⁵

In Figure 1 the data for each eventually widowed woman are arrayed around the month of widowhood, which may occur at different SIPP months for the widows in the sample.⁶ A month of "widowhood" is randomly assigned to intact-couples using an approach suggested by Zick and Smith (1991). While the continuously married couples are in fact never widowed, arraying their monthly incomes around an assigned widowhood month provides a comparison over the same extended time period.

The story told in Figure 1 is strikingly similar to the findings of the studies using earlier years' data. Prior to widowhood, eventually widowed households have lower incomes than do their continuously married counterparts. The eventual widows' average income-to-needs (using the standard U.S. Census Bureau needs calculations) was 3.41 in the two months preceding widowhood, but this ratio dropped to 2.38 immediately after the husbands' deaths. While the average pre-widowhood income-to-needs ratio of eventual widows is only 10 percent below that of continuously married couples, in the post-widowhood months their monthly income-to-needs falls to and stabilizes at roughly 70 percent of that of the comparison couples. Compared to women widowed in the 1984 SIPP, the 1990s widows are only slightly better off both before and after widowhood—women widowed in the 1984 panel had income-to-needs ratios of 3.1 in the pre-widowhood months, declining

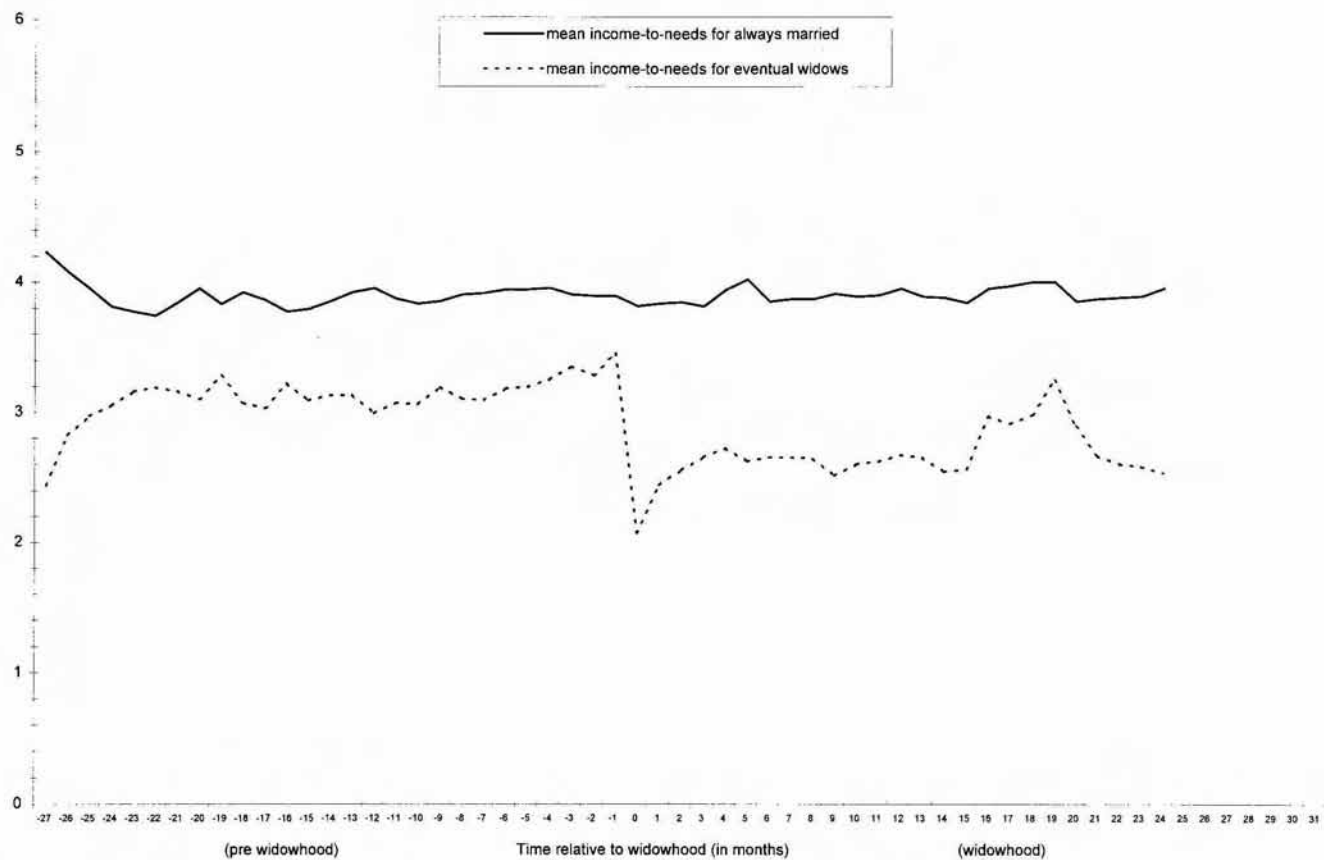


Figure 1. Income-to-needs ratios for always-married women and eventual widows. Source: Author's calculations.

to 2.0 for the two months after widowhood (Holden 1990). In sum, while widows' lower economic status as compared to married couples appears to be explained in part by pre-widowhood income differences, a decline by almost one-third in income-to-needs occurs at the time of the husband's death.⁷

Why women on average suffer a large decline in income upon their husbands' deaths is not fully understood. The analysis of the predictors of income-to-needs and of income changes by Holden and Zick (1997) finds that while these two groups of couples are remarkably alike in the pre-widowhood months on many demographic dimensions, there are marked differences in the sources of income before and after the husband's death. Husbands about to die are more likely to be drawing on social security and pension benefits and less likely to have labor income than are their married counterparts. This is not surprising, given the lower labor market involvement among the about-to-die husbands.

It is also clear from the SIPP analysis of widowhood that the receipt of a pension both is associated with higher pre-widowhood income and lessens the economic shock of the widowhood event itself. Among the women who were widowed in the SIPP panels, those who received a pension as a widow both had higher pre-widowhood income-to-needs ratios than those who did not (4.13 vs. 3.03) and had a significantly smaller decline in that ratio (11% vs. 38%). Compared to the 74 percent of the men in eventually widowed couples who were receiving pensions prior to their deaths, only 45 percent of the widows received a pension. The loss of this pension explains an important part of the decline in income among widows. It is clear that, while not all husbands are eligible for a pension before they die, the receipt of pension following the husbands' death cushions the fall in income upon widowhood. Ironically, the expansion in pension coverage, which has increased the proportion of men who receive a pension, has increased the importance of pensions as an explanation of income declines upon widowhood.

Social Security Reform Proposals

Two of the three reform plans described in Chapter 1 by the Advisory Council on Social Security have a defined-contribution layer on top of a basic defined-benefit plan.⁸ The Personal Savings Account (PSA) plan would add a mandated defined-contribution individual account (financed by a 1.6 percent increase in the payroll tax rate) to a defined-benefit plan whose benefits would be somewhat less generous than the current system.⁹ The Individual Account plan proposes that the major share of social security benefits be derived from a fully funded, privately held individual account that would be a second tier of a system that also provided a flat retirement benefit tied to a number of years covered. Under both proposals, the surviving spouse would be eligible for a benefit that is no less than 75 percent of

the combined benefits received by the couple from the defined-benefit component of the plan. Under the PSA plan, while the worker is alive, the spouse would be eligible for a spouse's benefit equal to one-third of the other spouse's Primary Insurance Amount (before any early-retirement reduction). When both spouses in a couple claim benefits at the normal retirement age, the 75 percent survivor benefit would leave the surviving spouse in a one-earner couple with a benefit equal to that of the deceased worker's and the surviving spouse of a two-worker, equal-earner couple with a benefit equal to 150 percent of the (equal) individual benefit (i.e., $.75 * 200\%$). The 75 percent survivor benefit across all couples compares to the current system in which survivor benefits range from two-thirds to 50 percent of the couples' combined pre-widowhood benefit.¹⁰

Under the Individual Account alternative the non-working spouse of a one-earner couple would be eligible for a benefit equal to 50 percent of the flat benefit. Consequently, the 75 percent survivor benefit for a widow would amount to between 112.5 percent of the flat benefit for a one-earner couple (75% of 1.50 of the flat benefit) to 150 percent of the one-person single flat benefit for a two-worker equal-earner couple. While this percentage is higher than the current 100 percent of deceased-worker benefit for survivors first claiming benefits at or after the normal retirement age, it is a percentage of a much lower proposed flat benefit—\$410 per month (in 1996 dollars) for a single earner. The resulting survivor benefit is between \$461 and \$615 and is lower than the average benefit award of \$781 paid in 1995 to nondisabled widows 65 and older (Social Security Administration, 1996).¹¹ Under both the Individual Account and the PSA plans, widows would be assured only the survivor benefits based on the lower, basic benefits. Whether, as widows, wives would share in the projected higher social security benefits paid to workers from both tiers, would depend on their sharing as wives and widows in their husbands' individual accounts. As widows they would not be assured a share unless an explicit bequest was made or a survivor annuity chosen by their husbands prior to death. In the next section of this chapter we present evidence on the probability of husbands' making this choice and the policy implications of that evidence.

Joint-and-Survivor Benefits

The married individual who applies for social security retired-worker benefits now has no choice as to whether survivor benefits will be paid to a surviving spouse or a former spouse nor as to the amount paid. Divorced individuals automatically are entitled to a survivor benefit based on their former spouse's covered earnings. Individual accounts introduce choice into the payment of survivor benefits, unless the option to choose against a joint-and-survivor option is restricted by accompanying federal regulation. The

PSA plan would require annuitization but allow a married worker to choose a single-life benefit (a benefit that ceases upon the worker's death) or a joint-and-survivor benefit (a benefit that continued to be paid to the designated survivor). The proposed regulation of annuitized accounts in the PSA roughly mirrors federal regulation now governing private employer-provided pensions (Kushner and Domone 1995). The Individual Account alternative would not require annuitization, nor did proponents of this plan propose regulations on the type of annuity selected when the accounts are annuitized.

Critical to how widows will fare under the two individual-accounts proposals is whether workers will choose to share these pension assets across the years when only one of them may be alive. As wives' labor force participation, earnings, and pension coverage increase, it is not known how husbands may consider these changes in making their choice about annuity type.

Pension Legislation

In 1974, the Employee Retirement Income Security Act (ERISA) established minimum fiduciary, coverage, and vesting requirements governing qualified *private* pension plans. ERISA (as amended) applies only to an "employee benefit plan . . . established or maintained by any employer . . . [except that it] shall not apply to . . . a governmental plan" (ERISA Sec.4).

The "joint-and-survivor annuity requirements" of ERISA specify that when the primary form of plan payout is an annuity, the default payout form to married workers must be at least a joint-and-one-half survivor annuity which is actuarially equivalent to the single-life worker pension. That is, the spouse of the married worker is eligible for a survivor benefit equal to at least one-half of the benefit payable to the retired worker under this option. A joint-and-survivor benefit that is actuarially equivalent to a single-life pension will pay a lower benefit during the retired worker's lifetime. ERISA originally allowed the married worker to choose a single-life annuity, a lump-sum distribution, or some other option instead of the default option without notification to the spouse. The 1984 Retirement Equity Act (REA) amended ERISA to require the spouse's notarized signature when the default joint-and-survivor option is rejected.

This default joint-and-survivor annuity must be provided by defined-benefit plans and by defined contribution plans unless participants do not elect benefits in the form of an annuity and the nonforfeitable accrued benefit is payable in full to the participant's spouse. While ERISA also regulates Individual Retirement Accounts and 403(b) tax deferred annuities, the distributions from these accounts fall outside the joint-and-survivor regulations. Likewise, ERISA rules on distributions do not apply to privately purchased annuities from life insurance companies. In other words, ERISA

requirements regulate the joint-and-survivor annuity selection, but workers may opt not to take the joint-and-survivor option or may roll over pension distributions into accounts that are not regulated.

Exploring the degree to which men who now receive a pension choose to insure their wives through a joint-and-survivor option provides insight into the protection that widows may receive from their husbands' individual accounts and into which widows would be vulnerable to the loss of a pension under a more privatized system. The next section examines the predictors of the decision by married men to take a joint-and-survivor pension.

Predictors of Joint-and-Survivor Annuity Selection

The data used are for married male retired workers in the New Beneficiary Survey (NBS). The NBS surveyed a sample of individuals who first received social security benefits during 1980–81. They and their spouses, if married, were interviewed approximately one year later. Here we examine male retired-worker beneficiaries who were married and reported pension receipt at the time of the 1982 survey. Respondents were asked when their pensions were first received, from which it is possible to determine whether their pensions began prior to or after the effective date of ERISA. In addition, pensioners were asked whether their pension would continue to their spouse, if they died today. It is from this question that the estimate of joint-and-survivor selection is derived.¹² Because the NBS sample is of men who were already pension recipients, the analysis does not throw any light on the consequences for widows when husbands vested in a pension die prior to pension receipt. In addition, the pension-option selection of these men was not governed by the 1984 provisions of the Retirement Equity Act, and so the effects of that act cannot be examined with these data.¹³ We examine the probability that the married man chose a pension that would continue to be paid to his wife after death, as a function of explanatory variables affecting the willingness of the couple to suffer a reduction in pension income when both were alive, the "need" of the widow for the additional pension income, and the likelihood of the husband's dying earlier than his wife.

For the total sample of married men, 62 percent had elected a pension that would continue to be paid to the widow after the husband's death. This is a weighted average of the 48 percent of the men whose pension benefits began prior to 1974 who elected a joint-and-survivor pension, and the 64 percent whose benefits began in 1974 or later who did so.

The difference in these two groups of men's election suggested an effect of the 1974 legislation, but establishing exactly which kinds of men elect a joint-and-survivor pension is more complex. An earlier analysis of men's pension-option selection in the pre-ERISA years (Holden and Burkhauser 1986) hypothesized that the pension-option selection was shaped by economic factors affecting both the value and the affordability of a pension that

continued to a widow. For a group of men electing a pension in the pre-1974 legislation years, the joint-and-survivor pension was more likely to be selected (a) by husbands who were economically better off (implying that the couple was better able to afford a reduction in the husband's pension while both were alive), (b) when the wife's expected widowhood period was longer (implying a longer survivor pension pay-out period for these couples), and (c) whose pension wealth was a higher proportion of his total wealth (implying that he was constrained in resources that could be bequeathed to the widow).¹⁴ For this pre-ERISA sample, the wife's own income and pension eligibility failed to have an influence on the husband's pension-option selection, implying that the couple's decision was shaped primarily by the costs and consequences of reducing his own pension income when both spouses were alive. We replicate and extend this earlier analysis, taking advantage of the more up-to-date and detailed NBS data.

The results of the analysis of the survivor-option selection are presented in Table 1. Predictors include wealth measures (total wealth of the husband, the share of his wealth that is his pension, and the wife's own wealth), an indicator of whether the wife is eligible for her own pension (the wealth value of which is included in her wealth measure), an indicator of the husband's poor health, and indicators of the difference in age between husband and wife. We include additional measures of the timing of the pension selection (POST-ERISA=1 if the pension began in 1974 or later), of the husband's marital history (MARRIED BEFORE=1 if the husband was married before), and if there were children from the current marriage (CHILDMAR=1 if there were children from the current marriage). The last variable is included since adult children may provide support to a widowed parent, should resources in widowhood be insufficient.

A husband with greater wealth (TWEALTH) is expected to allocate more wealth to the period of his wife's widowhood. The greater is the share of husband's wealth that is his pension (PWEALTH), the more important is the selection of a joint-and-survivor pension as a means of bequeathing wealth to the widow.¹⁵ The greater the wealth value of the wife's on pension and social security benefits (WIDWLTH), the less dependent is her well-being as a widow on her husband's pension selection. The wife's pension eligibility (WIFEELIG) indicates whether eligibility for her own pension, versus other forms of wealth, has a unique influence on the husband's pension decision. Finally, the health and age variables are included to indicate observable — to the couple — differences in the probability that the wife will survive the husband.¹⁶

The results using the new data are largely consistent with earlier findings (Burkhauser and Holden 1986). The share of wealth accounted for by the husband's pension increased the probability that a joint-and-survivor was selected, indicating that couples who are most likely to take the joint-and-survivor pension are those for whom cessation of pension income would

TABLE 1. Predictors of Joint-and-Survivor Selection (Probit Estimate)

<i>Variables</i>	<i>Coefficients</i>
INTERCEPT	-.698***
TWEALTH	-.001
PWEALTH	2.270***
WIDWLTH	-1.062***
WIFEELIG	-.124*
HEALTH	.116*
AGE1	-.252*
AGE2	-.084
AGE4	-.342***
POST-ERISA	.703***
CHILDMAR	.122*
MARRIED BEFORE	-.096
WHITE	.239*
N	2058

Source: Author's computation using data from the New Beneficiary Survey, 1982.

*Significant at .1 level; **significant at .05 level; ***significant at .01 level.

Variable definition

TWEALTH The wealth value of asset, pension, and Social Security that the husband can consume over his lifetime.

PWEALTH Share of his pension wealth comprising TWEALTH (%)

WIDWLTH Wealth value of widow's Social Security benefits, her own retirement pension, and other assets owned by her over her expected widowed life.

WIFEELIG Equal 1 if wife is eligible for a pension in her own right, zero otherwise.

HEALTH Equal 1 if husband reports any one of three serious health conditions.

AGE1 If husband is 11 or more years older than wife.

AGE2 If husband is 10-4 years older than wife.

AGE3 If husband is within 3 years of wife's age.

AGE4 If wife is 4 or more years older than husband.

POST-ERISA If pension was initiated after 1974

CHILDMAR If couple had children from current marriage (adult or minor)

MARRIED BEFORE If husband was married before.

WHITE If husband was white

seriously reduce the wealth that continued into widowhood. Consistent with the earlier study, couples appear to consider their own differential risk of widowhood. The husband's own poor health (HEALTH) increases the probability of his selecting a joint-and-survivor pension. When the wife is substantially older than her husband (AGE4), and consequently, her expected widowhood shorter than average, the husband is less likely to take a survivor pension. It is also the case that much older husbands (AGE1) are less likely to choose a joint-and-survivor pension, probably due to the large benefit cut as compared to the single-life pension for such couples. The positive effect of being white may reflect the much longer expected lifetimes of white women (and the greater value to them of a survivor pension) in a

world of race-neutral pension calculations. Finally, whether a husband is in a first marriage or subsequent marriage has no effect beyond the effect prior marriages may have had on his current wealth.¹⁷

Conclusion

A major policy question is why women remain vulnerable to sharp income changes when their husbands die. The risk of poverty among widows has diminished in part because of the greater resources that women bring into widowhood, but widowhood is still accompanied by a large fall in income. To the extent that social policy is designed not only to guarantee minimum income levels, but also to reduce the likelihood of severe income changes for all widows, this goal has not been fully achieved.

Proposals to provide a larger share of couples' combined social security benefits to survivors, financed by lowering benefits paid to the couple, would diminish the sharp decline in income upon widowhood (Burkhauser and Smeeding 1994). However, reforms that would substitute an individual account component for some share of current benefits might increase the widow's losses, depending on the share of the husband's individual account bequeathed to his widow. The PSA plan would require annuitization with a joint-and-survivor option that could be rejected by the annuitant. The Individual Account plan would not mandate annuitization or regulate the form of the annuity.

Our empirical analysis of the joint-and-survivor selection among married male pensioners offers insight into the characteristics of widows who might be most vulnerable to income declines under an individual account system. We find that smaller social security survivor benefits would increase the probability of the husband's joint-and-survivor selection. We also find that as women's pension coverage increases, the joint-and-survivor probability falls, leaving wives more vulnerable to income declines upon widowhood. The effect of ill health and age differences on the probability of electing a joint-and-survivor benefit implies a rational weighing of the relative value of that benefit. At the same time, it means that a man who dies "against the odds" — e.g., a healthy man or a husband younger than his wife who dies unexpectedly early — will leave a widow without the assured income protection now provided through a uniform survivor benefit.

The results suggest that reform proposals that include a major individual accounts component should include discussion of the details of the regulations governing the annuity options that workers may elect. It is important to note that the Individual Account plan would leave these accounts largely unregulated, and the PSA plan, which would require annuitization, would allow workers to choose against a joint-and-survivor option.

Under the current social security system, survivors (including divorced

spouses) are eligible for a social security benefit at least as large as that of their deceased (ex-)spouse, although that benefit may be reduced for early acceptance, for continued earnings, or by the survivor's receipt of her own social security retired-worker benefit. Under the individual account options, a survivor pension would be paid without regard to other income and assets. Widows who now have their social security survivor benefits reduced would be better off with inherited individual accounts. However, if husbands select against the joint-and-survivor annuity when their wives have their own social security or employer-provided pensions, widows might be no better off—and perhaps worse off—under a system with far smaller guaranteed survivor benefits. Among the women widowed in the 1990, 1991, and 1992 SIPP panels, less than half as many reported pension receipt after their husbands' death as would have been expected had all pension-recipient husbands chosen a joint-and-survivor pension, and women who had no pensions after their husband died experience sharper declines in income.

Other studies of widowhood have found that social security survivor benefits are as important to the economic well-being of widows as are benefits from private pension plans (Holden, Burkhauser, and Feaster 1988). Longer work histories and greater pension coverage among women have not eliminated the economic risk of widowhood. Our findings, using the NBS data, also suggest that proposals to restructure the social security system so that a greater share of the system's protection is derived from individual accounts may pay greater attention to the consequences for widows—still an economically vulnerable group—of allowing holders of those accounts to choose an annuity that ceases upon the death of the spouse. The passage of legislation making a joint-and-survivor option the default payment in private plans was an important contributor to a substantial rise in the percentage of men taking that option after 1974. Even as these findings suggest that couples rationally weigh the relative value of postponing potential consumption to the years when the wife alone survives, they also suggest that untimely deaths will leave widows without survivor benefit protection. For the widow whose husband chose a single-life annuity, however rational that decision may have been, the death of the husband and her loss of his pension would result in the continuation of the income declines now experienced by widows.

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Notes

1. Gender neutrality in the social security system means that all issues discussed in this chapter may apply to a surviving husband. On the other hand, continuing differences in earnings of women and men mean that women are at much greater risk of poverty as widows than are men as widowers, so the public policy issue is addressed here as a widowhood issue.

2. The payment of survivor benefits initially only to women does reflect a traditional view of the family in which husbands were expected to be the primary earners. Payment was extended to husbands in 1950, but only if pre-widowhood economic dependency could be established. After 1975, when the dependency test for men and not for women was ruled discriminatory by the U.S. Supreme Court, all remaining sex-based differences in social security rules were eliminated.

3. This is an underestimate of women eligible for both a retired-worker and a spouse or survivor benefit, since the Social Security Administration defines as dually entitled only persons eligible for retired-worker benefits and a *higher* spouse or survivor benefit. If dual entitlement were defined as persons eligible for both a retired-worker benefit and a subsidiary benefit, regardless of size, virtually all ever-married women and men would be so deemed.

4. Each SIPP panel is a nationally representative sample of households whose members are interviewed at four-month intervals over approximately a 32-month period (U.S. Bureau of Census 1987).

5. Before weighting the intact-couple sample to achieve age comparability, each sample was weighted by the SIPP sample weights that adjust for the specific sampling criteria used in SIPP and panel attrition. The age weighting of the intact-couple sample means that their data do not reflect the actual average experience of this group, but only of this group with a reweighted age structure.

6. The aggregate data are arrayed over a 64-month period, even though for any single couple we have a maximum of 32 months of data. This is because some women are observed for a longer period as married women and are widowed near the end of the panel, while others are widowed early and are observed for a longer period as widows.

7. The 0 month is the month in which the husband dies. The first month of post-widowhood is the first full month spent as a widow. See Holden (1989) and Burkhauser, Holden, and Myers (1986) for a discussion of the problems associated with the accounting period during which a husband dies. Surveys (including SIPP) generally do not count the husband's income during the month of his death even though he may have been present part of the month. This is probably the reason for the lower income in month "0" and the rise in month "1" a more accurate measure of the income the widow could draw on as a new widow.

8. The details of these plans are described in Chapter 1.

9. Under this plan the computation period for the Average Indexed Monthly Earnings, which is used to compute benefit amounts, would be increased from 35 to 38 years and the move to age 67 as the earliest age of receipt for unreduced benefits would be accelerated.

10. The 50 percent "survivor benefit" arises when both spouses receive equal retired-worker benefits. In this case no additional benefits would be paid to the survivor beyond his or her own retired-worker benefits.

11. Note the anomaly that a single worker gets less than the surviving spouse does in a married couple.

12. Pensioners might have answered this question affirmatively if they had chosen

a period-certain option. Thus, the analysis is not strictly of the joint-and-survivor selection. Nevertheless, any survivor selection indicates that the pensioner is willing to forgo some share of his own pension in order to have it continue to his widow, even if only in the case of his relatively early death and for a relatively short period of widowhood.

13. ERISA did not mandate a survivor pension when pension vested workers died prior to the earliest age of retirement. REA extended survivorship protection to spouses of pre-retirement deceased workers. The NBS data are for retired men; thus survivor pension receipt is not affected by the pre-retirement death provisions. Tegen (1997), using data from the National Survey of Families and Households, concludes that the REA did increase the percentage of widows receiving joint-and-survivor pensions when husbands died prior to retirement.

14. This study used a sample of married men interviewed in the Retirement History Study and who died between the survey years 1969 and 1979. Their pension-option selection was estimated by their widows' receipt of pension income that could be attributed to their husbands' pension continuation.

15. The estimate of pension wealth is the actuarial value of the single-life option, adjusting for the actual pension option selection of these men. While we know when a survivor pension is chosen, we do not know what specific choice was made. We assume a joint-and-one-half pension (the minimum allowed by ERISA) when estimating the actuarial value of the pension of men who chose a survivor option.

16. Education-level variables were also included but statistically insignificant and made little difference to the estimates. Education was hypothesized to influence the information husbands sought when faced with the pension-option decision.

17. The effect of wife's marital history on the husband's pension-option selection also was found to have no influence. The husband's marital history variable was included in these estimates since the effect of a divorce on his assets and any obligations to a former wife are not observed while the assets the wife gained from a divorce are observable and included in the WIDWLTH measure.

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