

# III

## Alternatives for Providing Family Retirement Benefits in Social Security and Employer-Sponsored Pension Plans

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## **Abstract**

This paper looks at different ways to think about the economic relationships within the family and relate them to various ways of providing for retirement security, within a Social Security and employer framework. We look at what Social Security offers in different family situations in the United States and provide examples from overseas. This paper presents a framework for thinking about the economic security of spouses and translates that into alternatives for family benefits within Social Security and private retirement systems. It focuses on issues related to providing retirement benefits for spouses, widows, and divorced spouses and discusses some of the considerations in evaluating equal compensation versus a greater benefit to participants who have dependents. We look at the issues from the perspective of the government, employer, and individual. The employer's role is related to the government's and the individual's roles in providing for retirement security.

## Introduction

The goal of this paper is to explore issues related to retirement and family structure. Challenges arise because of changes in families between the time benefits are earned and paid. There is a major focus on divorce and Social Security because the current U.S. system is not working well. We will look at the traditional family, caregiving and its relationship to retirement security, survivor benefits, and issues related to divorce. The paper will focus on U.S. benefits, but information about methods of determining benefits in other systems will be used to illustrate other options.

Retirement benefits, whether private pensions or Social Security, are earned in the United States through attachment to the workforce via paid employment. However, this structure leaves a significant unmet need, as the caregiving and homemaking labor traditionally provided by women does not fit easily into this system. In the absence of efforts to provide for retirement benefits for this type of non-wage-earning labor explicitly, both private and public retirement systems do provide for the extension of benefits to spouses:

- Private retirement systems usually provide little or no explicit recognition of the spousal relationship in determining benefits. However, for benefits paid as income, the normal form of payment is a joint and survivor annuity, and in addition, participants in private plans can allocate benefits between spouses through death and survivor benefit elections, and, in the case of divorce, through Qualified Domestic Relations Orders.
- Social Security, on the other hand, implicitly recognizes the value of the non-wage-earning labor traditionally provided by wives through the provision of spousal and survivor benefits. These benefits are in addition to the worker benefit and are not an allocation of benefits.

Each of these approaches is partially effective in permitting retirement benefits to be provided to the member of the couple who assumed more of the non-wage-earning labor. However, each of these approaches is geared toward providing implicit, rather than explicit, recognition of this labor. This implicit approach is most effective in those cases where the marriage conforms to the most traditional model, characterized by a married couple, with no divorces, consisting of one wage-earner and one homemaker/caregiver, with no sharing of the wage-earning responsibility—that is, only one member of the couple earns wages during their lifetimes.

A household can deviate from this model in many different ways:

- By sharing wage-earning responsibilities concurrently (dual earner families)
- By shifting wage-earning responsibilities over time, such as when couples take turns leaving the labor force for education or caregiving, or when the wage-earning spouse dies before retirement
- By marrying later in life, establishing long individual wage histories
- By not marrying, thereby forfeiting available spouse benefits from Social Security
- By getting divorced before being married for 10 years
- By getting divorced after being married for 10 years
- By remarrying after divorce

Each of these variations in family patterns has implications for the Social Security and pension benefits of each member of the household. The result is often an inadequate benefit for the person with the most caregiving responsibility, usually the wife. In most cases, deviating from the standard model results in lower benefits from Social Security and a higher likelihood of poverty in retirement. Inequity between families is another result.

Many of the shortcomings and inequities of the current retirement systems can be traced to the following causes:

- Fewer and fewer households fit the standard model, rendering Social Security less effective in providing equitable benefits for homemakers and caregivers.
- Many households do not save enough and do not use fully the options available to them under private retirement systems to meet the income needs of both the wage earner and the homemaker/caregiver.

This paper will describe the issues related to family benefits, showing where there are shortcomings and how they arise. We look at approaches that are used in other countries and discuss potential remedies for the Social Security system.

## Basic Ideas and Background

Benefits are earned over individuals' working lives and then paid over retirement. This is true whether benefits are provided through government programs, employer programs, or personal savings. It is also true whether the benefit is a flat amount per person, an account built up through savings, or a figure based on a formula linked to earnings and period worked. When there is a change in the composition of the household between the time benefits are earned and paid, there is potential for a problem.

Through divorce or widowhood, one individual may progress through multiple marriages, and multiple household situations, prior to receiving pension or Social Security benefits. A simple notion of fairness leads us to conclude that spouse benefits should be somehow allocated based on the relevant periods of marriage. While simple in concept, this notion runs into problems in practice.

Complications arise whenever one starts attributing pensions to specific years of service. A typical pension plan (final average pay plan) is used as an example. A final average pay plan defines a monthly income benefit as a percentage of years of service multiplied by final average earnings over some specified period. For this type of plan, there are different ways to determine the benefit attributed to 25% of the total period over which benefits are earned.

- Take 25% of the total benefit earned: this method assumes that the final average earnings apply to all years of service and that changes in the formula apply retroactively. The benefit might be calculated at normal retirement age, actual retirement, or termination of employment.
  - The calculation can be done after actual retirement using actual pay to retirement, or some future pay could be assumed.
  - If the calculation is for splitting benefits in connection with a divorce and the plan was amended between the time of divorce and retirement, the calculation could be done using the plan at time of divorce, the plan at time of retirement, or a combination of the two. There is a special complexity in this regard if the plan is terminated.

- Take the difference in the benefit that would have been paid if employment terminated at the beginning of the years in question and at the end of the period. This method assumes that one is using the actual earnings during the period without regard to future pay increases. This method can be applied using the formula in effect at the time or using the formula at retirement. If the plan changes during the period, a decision will be needed about what plan provisions are to be used.

For each alternative, a rationale can be assigned to explain why it is the best choice. The answers, however, will be very different. To further complicate matters, the benefit may not be known until years after the period is over.

### Key Data on Life Cycle Histories and Poverty

Women have different life cycle histories than men do. The data here provide some insight into some of the distinctions that impact variations in pension and Social Security benefits.

Women live longer than men do. At age 65, U.S. women can be expected to live 19.1 additional years as compared to 15.8 years for men, a difference of more than 3 years. It is projected that by 2030, at age 65 women will be expected to live for 20.4 more years, compared to 17.5 years for men.<sup>1</sup>

Women are usually younger than men in married couples. In 34% of married couples, the husband is at least 4 years older than the wife.

The following table shows age differences for married couples.

Age Difference in Married Couples	Percentage
Husband 4+ Years Older than Wife	34%
Husband 2-3 Years Older than Wife	22
Husband and Wife within 1 Year	32
Wife 2-3 Years Older than Husband	6
Wife 4+ Years Older than Husband	6

Source: Table 56, Statistical Abstract of the United States 2000, U.S. Census Bureau.

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<sup>1</sup> Michael A. Anzick and David A. Weaver, *Reducing Poverty among Elderly Women*, ORES Working Paper Series No. 87, Social Security Administration Division of Economic Research, January 2001, p. 6.

Women are more likely than men to become widowed because of longer life spans and older spouses. In addition, widows are less likely than widowers to remarry, resulting in an even higher likelihood of women remaining widowed. Sixty percent of women over age 75 are widowed compared to 21% of men.

	Marital Status of Men and Women			
	Over Age 65		Over Age 75	
	Men	Women	Men	Women
Never Married	3%	4%	4%	4%
Married	80	56	71	31
Widowed	9	31	21	60
Divorced	8	9	4	5

Source: Table 55, *Statistical Abstract of the United States 2000* (Washington, D.C.: U.S. Census Bureau).

Women spend fewer years in the workforce than men do. Women are more likely to take time away from the workforce to care for children or elderly relatives.

Of retired-worker beneficiaries aged 62 in 1998, the median number of years of covered employment was 38 for men and 29 for women.<sup>2</sup>

Women have less pension income and lower financial net worth at retirement today. Only 30% of women aged 65 or older were receiving pension income in 1994 (as either a retired worker or survivor) compared with 48% of men. In 1993 female householders aged 65 or older had a median financial net worth of \$9,560 (excluding equity in their home), as compared to \$44,410 for married couples and \$12,927 for aged 65 male householders. Women also have lower income. In 1998 the median earnings of full-time, full-year working women was \$25,862 compared with \$35,345 for men.<sup>3</sup>

Within U.S. society, there is an increasing number of divorces. For example, the percentage of divorced women aged 45–49 increased from 5.25% in 1970 to 17.60% in 1997.<sup>4</sup> The following table projects the marital status of women by birth cohort.

<sup>2</sup> Ibid., pp. 5–7.

<sup>3</sup> Ibid.

<sup>4</sup> C. Eugene Steuerle, “The Treatment of the Family and Divorce in the Social Security Program,” Special Committee on Aging, U.S. Senate, February 22, 1999; [www.urban.org/testimon/steuerle2-22-99.html](http://www.urban.org/testimon/steuerle2-22-99.html).

Projected Marital Status of Women at Age 67, by Birth Cohort						
Marital Status	1931–35	1936–40	1941–45	1946–50	1951–55	1956–60
All Women in Cohort	100%	100%	100%	100%	100%	100%
Divorced	12	16	17	19	20	20
Never Married	3	5	5	6	7	7
Married	57	54	57	56	55	55
Widowed	29	25	22	19	19	18

*Note:* Totals may not sum to exactly 100% because of rounding.

*Source:* Barbara A. Butrica and Howard M. Iams, "Divorced Women at Retirement: Projections of Economic Well-being in the Near Future," *Social Security Bulletin* 63, no. 3 (2000).

For a couple that consumes all of its resources during marriage, divorce often creates financial hardship on one or both members, as they must set up two households after the divorce.

The probability that a divorced woman over age 65 will be in poverty is 20% compared to 4% for a married couple. The data below show the poverty rates among elderly women by marital status.

Marital Status	Poverty Rate (1999)
Married	4.3%
Not Married	17.3
Never Married	18.9
Widowed	15.9
Divorced	20.4

*Source:* ORES Working Paper No. 87, "Reducing Poverty among Elderly Women, Table 1, 2001.

Based on authors' tabulations of the March 2000 Current Population Survey.

Poverty rates among unmarried elderly women in all situations are troubling. Different reasons lead to poverty on the part of unmarried women. For women who have always been single, inadequate benefits would relate to job history and lower-income jobs. For women who had been married and became widowed or divorced, inadequate benefits would relate to the lack of explicit recognition of their caregiving role in retirement systems. Although there are different circumstances preceding termination of a marriage by death or divorce, the spouse and surviving spouse benefits generally do not differ much under various family situations. For example, a couple might be married for 40 or 45 years, or they may be married for 15 years. Social Security provides the same spouse benefits to both couples if all other factors are the same.

Some couples choose to live as unmarried couples, but their households operate much like those of married couples. U.S. income tax laws provide a financial incentive to do this. Social Security and pension benefits can be lost in this way, but few people realize that. The situation is particularly dramatic for couples who live together for a while, marry, and then divorce in less than 10 years. Divorce will be discussed further below.

### **Diversity of Life Cycle Family Situations**

Our discussion of social and private benefits has been structured by looking at issues related to the traditional family, caregiving, survivor benefits, disability, and divorce. As indicated above, there are many ways that families can differ from the traditional families for whom the systems were built. Often these different family situations are discussed without thinking fully about how they interact and patch together over a lifetime. There is not only diversity at any point in time; there is diversity and change over time. Here we define some households and see how they progress over a lifetime. We will examine the impacts on benefits from private and social programs. We assume the private programs are defined benefit plans. For this purpose, we will not focus on dependent children. Couples can be married or not.

		Private Pensions	Social Security
E X A M P L E  A	Alison stays single through life	Based on her own earnings record.	Based on her own earnings record.
E X A M P L E  B	Brenda married Bill at age 28 and continued to work after marriage. Bill passed away when Brenda was age 50.	<p>Brenda receives pension benefit from her job, which is based on her own earnings.</p> <p>Brenda starts receiving a survivor spouse benefit from Bill's pension plan beginning at Bill's earliest retirement date. The survivor spouse benefit is lower than the regular benefit that would have been paid to Bill if he had lived.</p>	<p>Brenda's benefit is the greater of benefit based on her own earnings record and the spouse benefit.</p> <p>After Bill's death, the spouse benefit is 100% of Bill's benefit.</p>
E X A M P L E  C	Carolina continued working after marrying Charles. Carolina's salary was half of Charles's before retirement. Carolina is widowed at age 75, 10 years into their retirement.	<p>Carolina receives pension benefit from her job, which is based on her own earnings. Her pension is subject to the qualified joint and survivor rules.</p> <p>Benefit paid to Charles is reduced on his death in accordance with joint and survivor provisions and is payable to Carolina.</p>	<p>Carolina's benefit is the greater of benefit based on her own earnings record and the spouse benefit.</p> <p>Prior to Charles's death, the spouse benefit is 50% of Charles's benefit.</p> <p>After Charles's death, the spouse benefit will increase to 100% of Charles's benefit.</p> <p>Charles' benefit during his life is based on his earnings record.</p>

		<b>Private Pensions</b>	<b>Social Security</b>
E X A M P L E  D	Diana was a homemaker when she was married to Daniel. They divorced after 8 years of marriage. Diana began to work after divorce. Daniel remarried shortly after. Diana remains unmarried.	<p>Diana receives benefit she earned plus portion of Daniel's pension benefit according to divorce settlement, if any provisions were made for pension benefits for her.</p> <p>Daniel receives benefit earned less any amount payable to Diana under divorce settlement.</p>	<p>Divorce benefit requires at least 10 years of marriage. Diana does not have entitlement to any benefit from her 8 years of marriage.</p> <p>She receives a benefit from her own earnings record and gets no credit for homemaking years.</p> <p>Daniel receives benefit based on his own earnings record. His new spouse is eligible for spouse benefit.</p>

		Private Pensions	Social Security
E X A M P L E  E	<p>Emily and Eugene divorced after 12 years of marriage. During their marriage, Emily continued to work but made less than half of Eugene's salary.</p>	<p>Emily receives pension benefit from her job, which is based on her own earnings record. Her pension might be reduced if benefit was split in divorce settlement.</p>	<p>Emily's benefit is the greater of benefit based on her own earnings record and a spouse benefit.</p>
	<p>Emily and Eugene both remarried afterwards. Emily's second husband, Edward, died when Emily was age 68.</p>	<p>Emily also receives portion of Eugene's pension benefit according to divorce settlement, if any. In addition, she receives a survivor spouse benefit under Edward's pension plan. The survivor spouse benefit is lower than Edward's regular benefit. (If Edward had a former wife, the survivor benefit might have been split.)</p> <p>Eugene receives pension benefit based on his own earnings record during employment. His pension might be reduced if benefit was split in divorce settlement.</p> <p>Eugene might also receive portion of Emily's pension benefit according to divorce settlement, if any.</p> <p>Prior to his death, Edward received a pension benefit from the plans he was covered under less any amounts that were paid to former spouses under divorce settlements.</p>	<p>The spouse benefit is the greater of 50% of Eugene's benefit and 50% of Edward's benefit and, after his death, 100% of Edward's benefit.</p> <p>In the event of Eugene's predeceasing Emily, the spouse benefit would be the greater of 100% of Eugene's benefit and 100% of Edward's benefit.</p> <p>Eugene receives benefit based on his own earnings record. His new spouse also receives a spouse benefit equal to 50% of Eugene's benefit.</p> <p>Edward received a benefit based on his own earnings record until his death. If he was married previously for 10 years or more, his prior spouse also may receive a spouse benefit equal to 50% of his benefit during his life and increasing to 100% of his benefit on his death.</p>

		Private Pensions	Social Security
E X A M P L E  F	Flora and Frank lived together and had children but did not get married.	Flora receives benefit based only on her own earnings record.	Flora receives benefit based only on her own earnings record.
	Flora had primary responsibility for the household and little outside earnings. They separated after 15 years of relationship. Both stayed single throughout life.	Frank receives benefits based on his work history.	Frank receives benefits based on his work history.
		This could vary if there were a contract between the parties or in states with palimony requirements.	There is no recognition of unmarried couples.

## The Traditional Family

### Introduction

The traditional family model is a single earner couple with children. The family stays together for life, but since one of the spouses is likely to die first, a surviving spouse usually will remain. The spouses have different roles: usually the husband works outside of the home earning an income, and the wife works within the home managing the home and providing caregiving services to the family.

Today an increasing number of families are two earner families. In 1998, 30% of families were single earner families, whereas 44% are dual earner families.<sup>5</sup> In dual earner families, both spouses work for income, and they also may share household duties. Where both spouses work for income, situations vary.

Oftentimes, the wife will do more than half and sometimes all of the household duties. In many cases, the wife will work outside of the home in some years, but not all, and sometimes she will work part time for some or all of the time.

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<sup>5</sup> *Statistical Abstract of the United States 2000*, U.S. Census Bureau, Table 747.

Whenever a partner in a marriage or other household couple arrangement assumes all (or more than 50%) of the household duties and forgoes wages and personal retirement savings, that person is disadvantaged in retirement unless the amount saved for retirement by the household during that period is ultimately shared. The issues confronting single and dual earner families are different, but both types of families have concerns surrounding these issues.

There are different ways to think about the relationships between the members of a couple:

1. We can view the couple as a single economic unit, in which case we need to think about how to handle benefits if they are separated between the time benefits are earned and the time they are paid. Separation can occur through death, divorce, or separation without legal divorce.
2. We can view the couple as two separate people who build up their own entitlement to pension benefits, in which case we need to think about how to allocate the pension credits—public and private—earned in each year.
3. We can treat the family using a blend between the above two views. This is what is done in the United States today. The current U.S. practice leads to inconsistent treatments between families. This is a particular problem with divorce, which will be discussed in a later section.

Internationally, different methods are used to pay benefits. Some countries have systems that pay a flat benefit or demogrant to each person after a certain age without regard to current or prior marital status or work history. Other countries provide a spouse benefit to a married person who has not earned a benefit based on personal work. Usually this is a flat benefit. In the United States, that benefit is 50% of the worker benefit, so that spouses of higher-earning husbands get higher benefits.

## **Social Programs**

The primary social program in the United States is Social Security. Social Security supports the traditional family. The Social Security system provides a worker benefit based on the earnings history of the worker, and a spouse benefit equal to half of the benefit based on the worker's history. If both spouses worked, then the lower-earning spouse gets a benefit equal to his or her worker

benefit plus the excess of the spouse benefit over that worker benefit. Additional benefits are paid to very low-income people through social safety net programs. Supplemental Security Income provides income, and Medicaid provides medical services for this group.

The current system redistributes benefit dollars from single persons and dual earner families to single earner families, who benefit the most from the spouse benefit. It also redistributes benefit dollars from higher earners to lower earners. This redistribution is in response to the need to provide adequate benefits, but it leads to some inequities. Concerns have been raised about Social Security benefits and the way they treat single versus dual earner families:

- There is an inadequate return on the contributions of the lower earner in dual earner families. The lower earner gets the greater of what he or she would earn based on his or her own earnings and the spouse benefit. The spouse benefit is half of the benefit of the high earner. In many cases, there is little or no additional benefit for the added Social Security contributions.
- There is also inequity between single and dual earner families. Single earner families with the same total income as dual earner families pay no more in taxes, and often pay less. In return, they can receive considerably higher benefits. This is true while both spouses are alive, but it can become even more pronounced after the first spouse dies.
- Benefits for the dual earner family are inadequate, particularly after the first spouse dies.

The Appendix illustrates the total Social Security monthly benefit for a single earner family and two dual earner families. The three sample families have the same household earnings. When both spouses are alive and stay together, the single earner family receives higher benefits compared to the two dual earner families. The differences in benefits are greater after the higher-earning spouse dies. When a couple separates, regardless of reasons, the reduced household benefit is generally not adequate to maintain the same living standard as prior to the separation. The inadequacy in benefit is disturbing, particularly for women after divorce.

## Employer Programs

The employer has to decide how much support will be offered to the family and in what form. The employer's philosophy generally drives that decision, although legal requirements are in place to provide some protections to spouses.

Combinations of survivor income requirements and spousal consent are used to protect family rights. There are two fundamentally different types of pension plans—defined benefit and defined contribution. In a defined benefit plan, the plan specifies a formula for a benefit, usually a monthly income based on pay and service. In a defined contribution plan, the plan specifies a formula for a contribution to a savings account based on pay. Defined benefit plans usually include benefits payable on retirement, on death before retirement, and often on disability. Some plans pay survivor benefits to children as well as spouses of deceased employees. In defined contribution plans, the benefit is simply the accumulated value in the savings account, and there are no additional benefits.

For private plans in the United States, the Employee Retirement Income Security Act (ERISA) requires a plan to provide a death benefit to the spouse of a deceased married participant who is vested at death. The legally required benefit is quite small. Employers are permitted to reduce the pension at retirement to reflect the value of the pre-retirement death benefit. If that is done, then the benefit is optional and must be elected. This is rare. Usually the benefit is provided to all married employees automatically. If an individual has been married more than once, the court might split this benefit between different spouses.

Defined benefit plans that pay benefits as monthly income must provide to married couples a qualified joint and survivor annuity as the normal form of income payment. A 50% qualified joint and survivor annuity would pay 100% of the income benefit as long as the retired employee is alive and 50% to the surviving spouse after the death of the retiree. The survivor benefit can be from 50% to 100% of the income while both are alive, depending on what the plan offers. Usually the added cost of the survivor benefit is paid for at least in part by the retiree. The amount of income is reduced so that the income has a value equivalent to the life annuity (or other form) specified in the plan. It is not uncommon to see a reduction of 10–15% of the pension while both are alive to pay for the survivor income feature. Many plans offer a lump-sum option instead

of a monthly income. Spousal consent is required for the lump-sum election and for the choice of a monthly income in a form other than a qualified joint and survivor annuity. Some plans offer an option of benefits paid as a lump sum on early termination, whereas others provide only a monthly income at retirement age. The effectiveness of spousal consent is unclear. Pension experts are concerned that sometimes spouses sign such consent forms without understanding their impact.

Defined contribution plans in contrast to defined benefit plans are like individual savings accounts. Benefits are most often paid as lump sums, and many plans offer no payment options other than lump sums. If benefits are available as an annuity, then a qualified joint and survivor annuity is required, and spousal consent is required for payment in another form.

### **Family and Individual Roles**

For most families, an adequate retirement income will depend on personal savings as well as employer and government programs. With more benefits available as lump sums, the family plays a key role in determining how benefits will be used after retirement and how they will be spread out.

Couples make decisions about when to marry and when to divorce. Sometimes they live together for a number of years prior to marriage, or they do not marry at all. Sometimes they divorce immediately on separation, and other times they separate but do not divorce or divorce later on. Most people do not realize that the timing of decisions with regard to marriage and divorce can have a major impact on Social Security benefits payable, particularly to the lower earner or dependent spouse. The decisions can also have an impact on the rights to private pension benefits.

Many members of the public are not focused on the issue of outliving assets. The family and the individual are responsible for ensuring that assets will last when payments are not made as regular income. This is discussed further under surviving spouse benefits.

## **Conclusions**

Social Security was designed to work well for the traditional family—with a single earner. It does not work nearly as well for the dual earner family, particularly the family with equal earners. Also it may not work well for the individual whose status changes over time. Some people will make out well in such cases, but others will do very poorly. These issues should be addressed, regardless of other Social Security reform.

In the private sector, extensive legal protections are in place to see that spouses get the share of pension benefits to which they are entitled. They do not always work well, primarily because spouses do not know how to use them. Education of the individual and family are very important.

## **Reflecting Caregiving in Retirement Systems**

Women are spending a significant part of their adult lives as caregivers. As mentioned above, of retired worker beneficiaries who were age 62 in 1998, women had an average of 29 years of credited service for Social Security as compared to 38 for men.

Currently there is no direct recognition of caregiving in Social Security or private pensions, but spouse benefits and spousal rights are designed to provide a benefit to the spouse who has spent much of her (or his) lifetime caring for the household and/or caregiving. Other countries have addressed this issue as shown in the following table.

Methods of Providing Benefit	Examples
Use of a flat benefit in a social insurance program available to all regardless of work history	Social Security programs in Canada, Denmark, New Zealand, and Sweden
Special credit for caregiving years	Belgium gives spouse raising child age 3 or under credit based on earnings in most recent years of work; Norway and Germany credit points for spouse raising a child under age 7 for Norway and under age 3 for Germany
Use of dropout years	France and the U.K.
Additional social insurance benefits to create a minimum benefit for those who do not meet the minimum otherwise	Minimum benefits are used in the U.S.

Although disability benefits are generally beyond the scope of this paper, it should be pointed out that there is no disability coverage for caregivers and homemakers. Disability is an earned income replacement coverage, and it is up to the family to provide for needed support if a caregiver becomes disabled. This can be a severe hardship for families with moderate or low income.

### **Social Programs**

Social Security provides spouse benefits that implicitly offer provision for caregiving. Individuals with some years of caregiving and some years in the paid labor force, or periods of combining both, get no greater benefit than the spouse benefit. Someone whose work history provides a benefit greater than the spouse benefit but who has several years of caregiving gets no added benefit for those years.

### **Employer Programs**

Spouses have rights to certain survivor benefits and to give consent on the use of pension assets. There are no additional benefits. Caregiving is not an employer issue per se, but rather a family issue.

## Family and Individual Roles

It is up to the family to make decisions about how assets are earned and used. According to Anne Crittenden, when a spouse has to cut back on or quit employment to care for children or others in a family, that spouse will ultimately pay a heavy financial penalty. In most cases, a caregiver's unpaid work in a family does not entitle one to any ownership of the primary breadwinner's income—either during marriage or after a divorce. Since Social Security does not define caregiving as work, a caregiver receives far lower benefits than a spouse having full-time continuous employment. As a result, the spouse who principally provides caregiving for the family is almost invariably worse off financially after divorce than the spouse who devotes all his or her energy to a career. As most caregivers are mothers caring for children, motherhood is the single biggest risk factor for poverty in old age. As the twenty-first century begins, women may be approaching equality, but mothers are still far behind. In planning retirement and during the event of dividing family assets, the family needs to recognize the unpaid time and labor bestowed by a caregiver.<sup>6</sup>

## Conclusions

The current Social Security system is troublesome in that it does not allow for any recognition of a combination of periods of caregiving and periods in the labor force, or of reduced labor force participation plus caregiving. It also does not provide for any disability coverage for caregivers. Caregivers include different kinds of people. Many married caregivers are spouses in higher-income families. The current system also gives no recognition to single parents or individuals caring for their own parents or single relatives. These types of people are often combining work in relatively low-paid jobs with caregiving.

Some countries already have methods in place to recognize periods of caregiving in an individual's lifetime. The methods used in other countries offer alternatives to the current U.S. Social Security system. Alternatives would include the following:

- Year-by-year earnings sharing by a couple. This is discussed further below.

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<sup>6</sup> Ann Crittenden, *The Price of Motherhood: Why the Most Important Job in the World Is Still the Least Valued* (New York: Henry Holt, 2001), pp. 5–6.

- Credit for caregiving years by imputing income for caregiving; caregiving might be considered only during periods of marriage. This method is used in Sweden, Belgium, and Switzerland.
- Credit for caregiving by dropping out caregiving years from averaging period; this works only for people who have some years in paid labor force. This method is used in the United Kingdom and Canada.

### **Survivor Benefit Issues**

A single individual requires about 75% of the amount that a couple needs to live at the same level. Formal retirement systems do not generally provide an amount this large. In some cases, the amount needed may be higher than 75%. If an individual needs help on an ongoing basis, a spouse often can provide some or all of that help in a married couple. However, a single individual may not have any family members available to provide help or care. In such cases, care must be purchased from an outside source, and it will cost considerably more than 75% for the single person to maintain similar living standards.

Retirement assets are the primary source of support for older couples and provide assets for the family unit. Whenever the family is treated as a unit, provisions are needed in both public and private systems for continuation of income and/or transfer of wealth between members of the family. If the family is not treated as a unit, or if there is year-by-year earnings sharing, there is no need for wealth transfer.

In the United States, benefits to widows and widowers are similar, and it would be easy to think that the issues are parallel. In fact, there are several important differences:

- Women have a longer life expectancy than men do; as mentioned above, the life expectancy for women at age 65 is 19.1 years compared to the life expectancy of 15.8 years for men.
- Women are much less likely to remarry than men are, so that many more elderly women live alone.
- Women have different lifetime earnings histories and have lower benefits based on their own work histories.

As a consequence, elderly widows are more likely to be poor. The wealth transfer on death of elderly husbands is not sufficient to provide for continuation of the standard of living before death occurred.

Wealth transfer can occur in several ways, and there are trade-offs between different methods of wealth transfer. The following chart shows some examples of how the wealth transfer might be provided.

Methods of Providing Benefit	Examples
Joint and survivor annuity forms of payment	Private defined benefit plans in the U.S. are required to use this as normal form of payment
If lump sums are paid, family needs to work out how it will provide for survivors	Private defined contribution plans typically pay benefits as lump sums, and some defined benefit plans offer lump sums as an option
Special survivor benefits in social benefit programs	U.S. and many other social security programs
Life insurance	

In addition to survivor benefits payable to spouses, there are related issues when the individual has dependent children at the time of death. Programs that provide surviving spouse benefits often include additional benefits for surviving dependent children. This can be viewed as a women’s issue because supporting these dependents is often the problem of the widow. Further discussion of these benefits is beyond the scope of this paper.

### **Social Programs**

Social Security provides survivor benefits on death before or after retirement. The Social Security program pays the individual survivor a worker benefit, plus the excess of the survivor benefit over the worker benefit. The survivor benefit is equal to the benefit that would have been paid to the deceased participant. In a couple where the wife is the lower earner or is not in the paid labor force, when the husband dies, the wife gets a total benefit equal to his

benefit after retirement age. Similar benefits are paid to former spouses who were married for 10 years prior to divorce. Survivor benefits are payable to widows or widowers after age 60. Survivor benefits are also paid at earlier ages if there are dependent children in the household.

There is a major concern about inadequate Social Security benefit levels, particularly for widows in dual earner families. There is a major inequity between single and dual earner families. A widow in a single earner family gets two-thirds of the combined benefit of the couple, but a widow in a dual earner family with equal earnings gets half of the combined benefit of the couple. In either case, the widow would need about 75% of the combined benefit to maintain the same living standard. The Appendix illustrates the impact of this inequity.

Proposals have been made to change the survivor benefit in the U.S. Social Security system. One proposal is to reduce the spouse benefit from 50% to 33%, and then to increase the survivor benefit to 75% of the combined benefit of both spouses.

### **Employer Programs**

Employers provide for benefits on death of employees and retirees through a combination of life insurance, death benefits with pension programs, and, in some cases, continuation of medical coverage for eligible surviving family members.

Death benefits for death before retirement within the private pension system vary depending on the type of plan and specific plan design. Vested defined contribution account balances are paid on death. In defined benefit plans, an annuity is paid to the surviving spouse of a vested participant. The law requires the benefit to be paid beginning at the earliest retirement age in an amount that would have been paid if the person had retired at that time. For participants who die before early retirement age, these benefits are very small. Employers usually provide active employees life insurance benefits. In many situations, there is a base life insurance benefit provided to all employees, plus additional coverage that can be purchased on a voluntary basis. At retirement, employer-provided life insurance usually ends or decreases to a nominal amount. The adequacy of death benefits needs to be judged based on the total benefit package.

Death benefits for death after retirement vary depending on how the benefit was paid. Most defined contribution plan benefits and some defined benefit plan benefits are paid as a lump sum. Once a lump sum has been paid, there is no plan death benefit, and the extent to which the survivor has assets depends on how the family managed its retirement resources.

For benefits paid as monthly income, the typical form of payment is a qualified joint and survivor annuity. Various percentages of survivor benefit can be chosen, but the usual survivor benefit is 50% of the retirees' benefit. If a married participant chooses an income form other than a qualified joint and survivor benefit, then the spouse must give consent to this election.

### **Family and Individual Roles**

The family has a choice to plan for retirement on a family basis, or each individual can plan separately. Most families plan on a family basis. In this case, it is important to focus on what will be available for the survivor after the first spouse dies.

The family needs to consider the potential for outliving assets on a family basis rather than on an individual basis. The poverty data and other information showing a decline in economic status at the time of widowhood indicate that families are not doing this adequately.

### **Conclusions**

There are major problems around provisions for widows in the United States. Although benefits are parallel for widows and widowers, the issues are not parallel at all. Several steps are needed to address this issue:

- Improving Social Security survivor benefits, particularly for the dual earner family. The proposal described above is an example of a good way to do that.
- Families need to do a better job of planning for widowhood and the potential for outliving assets.
- Where employers offer benefits paid as a lump sum, more needs to be done to educate employees about post-retirement risks and how they can be addressed.

- Couples who decide not to marry are excluded from Social Security death benefit coverage and from employer spousal coverage. Life insurance can be provided naming the partner as the beneficiary.

## **Divorce**

Families build assets and wealth. Some families build very few assets and others a great deal. Pensions, retirement savings, and Social Security benefit values can all be viewed as forms of wealth. In general, state law provides for the handling of property acquired during the marriage.

The law provides for the split-up of such property at time of divorce. Laws vary by states and pattern. Unmarried couples in contrast can have contracts but are not generally subject to divorce law. They can be subject to palimony law in some states.

The situation is very different for private pension plans covered by federal law, for public employee plans governed by state law, and for Social Security. For private plans covered by federal law, the mechanisms are in place for splitting benefits on divorce, although much of the public is not well educated about how to make good choices. For public employee plans, the requirements vary by plan (or at least state), and in some cases, legislation would be desirable to bring these plans up to the standards used by private plans.

In general, personal savings, whether for retirement or for other purposes, can be marital property subject to being split up on divorce. Property acquired before the marriage often is not marital property.

Pension benefits earned during the marriage are also treated as marital property. Pension law specifies what must be done in order for a private plan to be bound by the divorce order. Pension plans also provide for what will happen on the death of an employee. Private plans subject to ERISA are subject to different laws than are plans covering state and local government employees. These plans are subject to state laws. In contrast, Social Security is not treated as marital property. Rather, the law defines when Social Security benefits are payable to, for example, a former spouse and widow.

The splitting of property on divorce is often not optimal from a pension point of view. Particularly in a family with young children, the priorities of at least one spouse will often be short-term, and pensions may be neglected.

There are significant issues with Social Security. The system provides for inadequate treatment of divorce. A person who is a homemaker during a period of marriage and is later in the workplace gets either a spouse benefit based on the prior marriage or a worker’s benefit, not a combination of both. The lower-earning spouse in a marriage that lasts less than 10 years gets no benefit from the earnings of the former spouse during the marriage. Some people get very generous benefits relative to others. The American public should think about modifications in Social Security divorce benefits even if there is no major Social Security reform. If there is major reform, then decisions will need to be made about how to handle benefits for different types of family situations, for divorced persons, and for widows. The alternatives considered in this paper should be helpful in thinking through how benefits might be provided in the event of divorce. This is discussed further under social programs.

There are different ways that pensions provide for coverage of former spouses after divorce. The following table provides some examples.

Methods of Providing Benefit	Examples
Distribution of benefits earned during divorce proceedings	Private plans in the U.S.
Use of a flat benefit in a social insurance program available to all regardless of work history	Social Security programs in Canada, Denmark, New Zealand, and Sweden
Earnings sharing in social benefit programs	Used in second tier of social benefit in Canada, social security program in Germany
Provision in U.S. Social Security to provide a spouse benefit as if the marriage had continued, provided that the marriage lasts for 10 years or more	After 10 years of marriage, former spouse gets same benefit as continuing spouse; no limit on number of spouses who can benefit; benefit is greater of benefit based on former spouse’s record and benefit based on own earnings

This section is primarily about divorce. Divorce is followed by remarriage for some people. This cycle can be repeated. One of the design issues is what happens to benefit rights on remarriage. Where there is earnings sharing, credits are based on what happens each year and follows the person regardless of remarriage. In contrast, where special benefits are paid to divorced spouses, they may terminate on remarriage. This can be a disincentive to remarriage in some cases. For example, under U.S. Social Security, a woman divorced from a deceased higher-earner husband would have a significant disincentive from marrying someone with a lower earnings history.

## **Social Programs**

Social Security currently pays spouse benefits to a divorced spouse provided that the spouse was married at least 10 years before divorce. The benefit is half of the benefit paid to the earner while the earner is living, and then it rises to 100% of the benefit on the death of the earner. If the divorced spouse had a personal earnings record, the benefit is the greater of the personal benefit and the divorced spouse benefit. Duplicate benefits are not paid. The benefit seems to make a great deal of logical sense if the prevailing social pattern is to have a breadwinner spouse and a homemaker spouse and to require lifetime or very long periods of alimony.

Several examples can be considered to see how the present system does not work equitably in its treatment of different families:

- A woman who is married for 15 years, during which time she was a homemaker, and a worker for 25 years can get a benefit based on either but not both periods. Her worker benefit will be lower because there will be a number of years of “zero earnings” figured into the computation.
- A woman who is married for 9 years and 11 months gets no benefits based on the marriage, whereas a woman divorced after 10 years and 1 month gets full spouse benefits.
- A single mother gets no added benefits to recognize her family responsibility, whereas a married couple can, depending on the earnings of the spouses.
- The benefit to a divorced spouse is the same regardless of whether the marriage lasted 10 years or 40 years. The benefit is half the earner’s benefit until that person dies, and then it increases to 100% of the earner’s benefit.

- Dual earner families get much lower benefits than single earner families with the same total earnings level. This will also affect benefit entitlement if they divorce.

The current system is awkward and has discontinuities and anomalies. Furthermore, some people get a lot and some not much. Regardless of what else is done, it would make a lot of sense to restructure benefits on divorce. There are proposals to restructure benefits for survivors, particularly to address the dual earner family problem. One of these is discussed above. If that proposal were adopted, including the decrease in the spouse benefit to 33% of the primary insurance amount, then the need to restructure benefits on divorce would be much greater.

In order to restructure benefits on divorce, it is necessary to think through objectives and the rationale for these benefits. We can think about benefits on divorce from two perspectives: “the family is a single economic unit” versus “each individual stands on his or her own.” We can also think about a mixed perspective.

At present there is no logical rationale underlying the system. It is more of a patchwork, and it does not fully reflect either the philosophy of a family as an economic unit or a philosophy of each individual standing on his or her own. Rather, it extends spouse benefits to some divorced spouses and would make more sense in a world where there was lifetime alimony.

Some of the questions we need to answer if benefits are viewed from “the family is a single economic unit” perspective include the following:

- Should the family benefit on a lifetime basis be split?
- Should the family benefit earned on a yearly basis be split?
- Should there be a separate formula for the benefit of a spouse who spent all or part of the term of the marriage caregiving? Should it be the same as the benefit for a spouse who remains married?
- How should a period of marriage and divorce be combined with a period of work for determining a benefit?
- How should two periods of marriage ending in divorce be recognized?
- Should explicit credits be given for caregiving?

The authors believe that a system that recognizes credits on a year-by-year basis and splits the benefits earned in a family is better than a system that simply looks at benefits on a lifetime basis. If part or all of the benefits were privatized, the same questions would need to be answered. If benefits were available as lump sums along the way, that would create added challenges in the event of divorce.

If benefits are viewed on an “each individual stands on his or her own” basis, then there are different questions:

- How is caregiving recognized? Should the caregiver get an annual share of the credits earned by the worker?
- Where both spouses work and have unequal earnings and household responsibilities, how should the family effort be allocated for Social Security purposes?
- Should part of the benefit be a flat amount granted to all citizens?

Divorce is much less of an issue in such a scenario since assignment of benefit credit is done year by year and long before the time of a divorce.

One of the methods of restructuring benefits that can be considered is earnings sharing. Earnings sharing is discussed in the next section of this paper.

### **Employer Programs**

Private pensions are viewed as property, and pension values are subject to being split on divorce under a combination of state and federal law. This is different from the treatment of Social Security benefits.

On divorce the value of the pension benefits, to the extent that it is marital property, may be split, but it is up to the couple to determine how they will split their property. In many cases the wife might elect to get the house and leave the husband with the pension. This may be a good short-term decision but a very poor long-term decision.

### **Family and Individual Roles**

Families make decisions that have a great impact on the security of divorced people. Women often take some part of the assets other than pensions and pay the price later.

In a June 26, 2001, *New York Times* featured article, “Women Forced to Delay Retirement,” writer Louis Uchitelle draws attention to the hundreds of thousands of divorced women in their ’ sixties who are forced to stay in the workforce because they lack sufficient money to retire. Unlike widows who at least have the pensions and savings left them by a deceased spouse, wages are in effect becoming divorced women’s pensions. This area calls for education of the general public and a more enlightened divorce bar.<sup>7</sup>

## **Conclusions**

Divorce is the area in which Social Security reform is most needed. This is true whether the present system remains or there are private accounts. Education is a critical issue in order to help people use the existing provisions of the private system better.

## **Creating a Total Compensation Framework for Employer Programs**

Employers today seek to align their total compensation programs with their business needs. A number of pension situations are discussed here. For many families, pensions are their largest assets. Employers who are focusing on issues of total compensation and treatment of employees have several questions to answer:

- Should married employees get greater benefits than single employees? Should any added benefits be provided beyond what is required by law? These questions are important in thinking through issues related to single versus married families—both single and dual earners—and in thinking through survivor benefits.
- Should employees who choose larger benefits for their spouses pay the full cost for added benefits, or should the employer subsidize the benefit? This question arises when considering joint and survivor income and survivor benefits.
- Should employees who support someone other than a spouse be able to leave pension benefits to that person in the same way that they are left to a spouse? (It is not uncommon for an unmarried employee to support a parent or sibling.) In defined contribution plans, this is not a problem since a beneficiary can be named. It is

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<sup>7</sup> Louis Uchitelle, “Women Forced to Delay Retirement,” *New York Times*, June 26, 2001.

not common to find joint and survivor income benefits with other beneficiaries. Some plans do not allow them.

- Should domestic partners be treated the same way as spouses? If so, under what circumstances? Should the rules apply to same sex and opposite sex partners? Domestic partners can be viewed as a particular case of someone other than a spouse.
- How long does an employee or retiree have to be married in order for the spouse to be entitled to benefits?
- If an employee has divorced and remarried, what are the employers' obligations, if any, to the former spouse? Does it matter whether the divorce occurred before or after retirement? For private pensions, the provisions of ERISA and domestic relations law will set forth minimum obligations.
- What obligations are there on divorce?
- How should information be provided to the couple? Should information be given only to the employee, or also to the spouse?
- Should dependent children get additional benefits when their parent dies? Should they get some benefits from the pension plan?
- If health benefits are provided to retirees, should they also be provided to family members? What should the employer pay for each family member? Should only family members who are already connected to the retiree at time of retirement be covered?

There are related issues in other benefit plans. The biggest costs and issues are found in health benefits for active employees, where it is customary to include family members and pay for part of the cost.

Total compensation philosophy is a function of company philosophy, employee need, goals for how much benefit the plan should provide, and the regulatory environment. A company that has a relatively pure total compensation philosophy would probably wish to provide support for retirement savings through defined contribution plans, would use lump sums, and would avoid family benefits. A company that is more focused on employee need would tend to pay additional benefits to family members and would be much more likely to use a combination of defined benefit and defined contribution plans. Traditionally, companies have paid for significant family benefits, but the degree of subsidy has been reduced over the years in many organizations. There are no right or wrong answers to the questions.

## **New Directions for Social Security**

### **Defining Principles and Social Responsibility**

In some societies the family cares for its elderly members, so there is no need for retirement programs. Families have children, who in turn are expected to care for their parents. Family support is an alternative to the direct provision of benefits.

In western societies, this notion is no longer predominant. There are programs to help retired persons live independently at an adequate level and with dignity. Retirement programs generally are a mix of governmental programs, employer-sponsored programs, and individual savings. The typical mix varies by country. In some countries, government programs provide only a very basic floor of protection; in others, they provide most of the social security benefit. In some cases, there are legal mandates requiring employers to provide benefits. Public policy differs in the extent to which it is focused on reducing and eliminating poverty versus providing adequate benefits for a larger segment of the population.

Public policy also differs in the way it treats the family members of workers. Most western societies have some provisions for benefits for family members not in the paid labor force. As families have grown more diverse, these systems often do not work well for everyone.

The authors believe that Social Security should balance adequacy and equity. The system should provide a reasonable amount of redistribution, it should serve to help minimize poverty among the elderly, and it should accommodate the range of family structures. Not everyone agrees with these goals. In looking at issues of equity, it is important to consider equity between families and between individuals.

Private pension plans are designed to supplement Social Security and meet a variety of goals. Generally they are designed to help the employer meet goals with regard to attraction and retention of employees, and as well, the plans are designed to improve employee satisfaction and morale. In organizations and during periods in which career employment is the norm, they tend to be designed to provide adequate benefits for employees who retire after a career with a single employer.

In other organizations they are designed to help employees accumulate assets, and in many cases, competitive practice is a key driver of plan design. Issues of splitting benefits on divorce are present regardless of the underlying plan design, but the specifics vary.

### **Basic Principles and Family Structures**

The goals above relate to the retirement structure. There are also public policy goals that relate to the formation of families. Benefit and tax provisions can serve as incentives and disincentives to marriage, for example:

- The legal structure should not serve as a disincentive to marriage. This is not true today; the income tax structure with its marriage penalty is a disincentive. The structure of Social Security benefits to divorced persons is a disincentive to remarriage. As of mid-2001, income tax changes have reduced the “marriage penalty.”
- The structure of benefits should not serve as an incentive to divorce or encourage “artificial” divorces. From this follows the idea that the benefits to a couple should not be greater after divorce than before divorce.

Other possible principles, which may be controversial, are as follows:

- Any allocation of benefits or credits should relate to the period of marriage only.
- One of the Social Security program goals should be minimizing poverty in old age.

### **Earnings Sharing**

Earnings sharing is a different approach, one that is used in Canada. Under earnings sharing, the “credit” or earnings history for a married couple for each year of service is evenly split.

This approach has several advantages:

- It provides credit for caregivers who are part of a married couple
- It provides for equal treatment between couples with different earnings splits but the same total earnings

- It provides for a way that people with some years in and some years out of the labor force get more continuous credit
- It offers a way to provide a benefit on divorce that is not subject to the current “10 year cliff”
- It offers credit for each year of earnings to each spouse, with an appropriate division for the year
- It provides a way for a woman who is married for 15 or 20 years and then divorced to get credit for her own earnings and for the period when she was married, regardless of her activity during marriage
- It provides a way to handle credits for an individual involved in multiple marriages and divorces.

Earnings sharing has been considered previously in the United States and handles some problems well, but it has generally been rejected for several reasons:

- Transition is very difficult
- It would be politically difficult to sell; it would involve a reallocation of dollars, and there would be beneficiaries who win and beneficiaries who lose
- It would require a different basis for determination of death and disability benefits
- It does not work well when the members of a couple retire at different times.

In addition, it could be a disincentive to marriage, in that the higher earner might not want to share part of his or her earnings with a lower-earner or nonearning spouse. There would also be practical difficulties in determining who is married and when, particularly in common law situations.

However, in spite of the disadvantages, if some portion of the benefit were in an individual account, then earnings or contribution sharing would be much more important. The main alternative to earnings or contribution sharing would be to make the value of the individual accounts subject to court-directed division along with all other marital property.

Would the advantages of earnings sharing outweigh the disadvantages in today's environment? This is difficult to say without doing a detailed analysis of the population to be covered and benefits to be delivered under a specific proposal. If the basis for determining death and disability benefits were separated from the basic formula, then earnings sharing might work better. In this time of increasing divorce and greater variation in labor force participation, it seems to the authors that it is worth taking a new look at this alternative.

## **Privatization**

As changes to the U.S. Social Security system are considered, many of the alternatives under discussion include elements of system privatization. The proposals generally involve replacement of part of the income-based defined benefit social insurance system with individual accounts. Other proposals involve investment of some of the trust funds in private market securities, but we will exclude these from our discussion.

The proposals vary in that they may be mandatory or optional; both the amount of the contributions to the individual accounts and the method of managing the accounts vary.

In thinking through issues related to family, there are some important issues as we consider private accounts. These include the following:

- The amounts deposited in the private accounts are generally a percentage of pay and investment earnings on the accounts, so that higher-earning individuals have larger account balances directly in proportion to their higher earnings.
- The private accounts themselves do not provide for family benefits. Most proposals include a mix of a traditional income-based benefit, at a lower level, plus the private account. Family benefits would usually be included in the traditional income-based portion of the benefit. The proposal could provide for earnings sharing so that a couple would split the credits to the account earned each year, but most proposals do not include earnings sharing.
- On divorce, there is a question of splitting accounts. Options on divorce before retirement include credit splitting, leaving the benefit with the person who earned it, or leaving it to the courts to decide. Based on the experience with private pensions, leaving the

decision to the courts would be a terrible idea. For divorce after retirement, options depend on how the benefit is paid out.

- On retirement, benefits might be paid as a lump sum or an annuity. If the benefits are paid as an annuity, it could be a life annuity or a joint annuity over the life of the covered person and his or her spouse. It may be difficult to mandate annuities. If a lump sum is paid, the longer-lived spouse will be vulnerable if assets have been used.
- On death before retirement, the account balance would probably be left to a beneficiary. This might automatically be the surviving spouse for married couples. Alternatively, it might be the portion of the account built under the marriage. For death after retirement, there would be no issue if a lump sum had been paid. If benefits are paid as income, the form of income would determine death benefits.
- Many couples live together for a period of several years before marrying, and some never marry but simply live together. Presumably couples living together without marriage would be treated as two single persons. In situations where accounts were to be split covering what was earned during the marriage, it would be necessary to determine the period of marriage. There would be special considerations in common law jurisdictions.
- Where a person had been married to multiple spouses over his or her working lifetime, there would be additional special issues.

The discussion above focuses on some of the issues that need to be considered in structuring family accounts and dealing with family issues. It does not focus on what system benefits are lost by moving to private accounts and how those benefits might be replaced. The current system provides for redistribution from higher-income to lower-income workers and from single individuals and dual earner families to single earner families. It also redistributes from those family units whose members die relatively early to those who live to older ages. To the extent that benefits are provided in private accounts, such redistribution is essentially lost. Family benefits are generally a form of redistribution, and many of them disappear. The principal issues in structuring an account system to meet family needs are ownership of the accounts plus the addition of supplemental benefits.

## Conclusions

In today's world, many people have several changes in family status throughout their adult lives. Pensions and Social Security are earned over a long period of time, as individuals move from family to family. Although women have entered the labor force in increasing numbers, many of them have fewer years in the paid labor force and lower earnings, reflecting their family responsibilities over their life cycles.

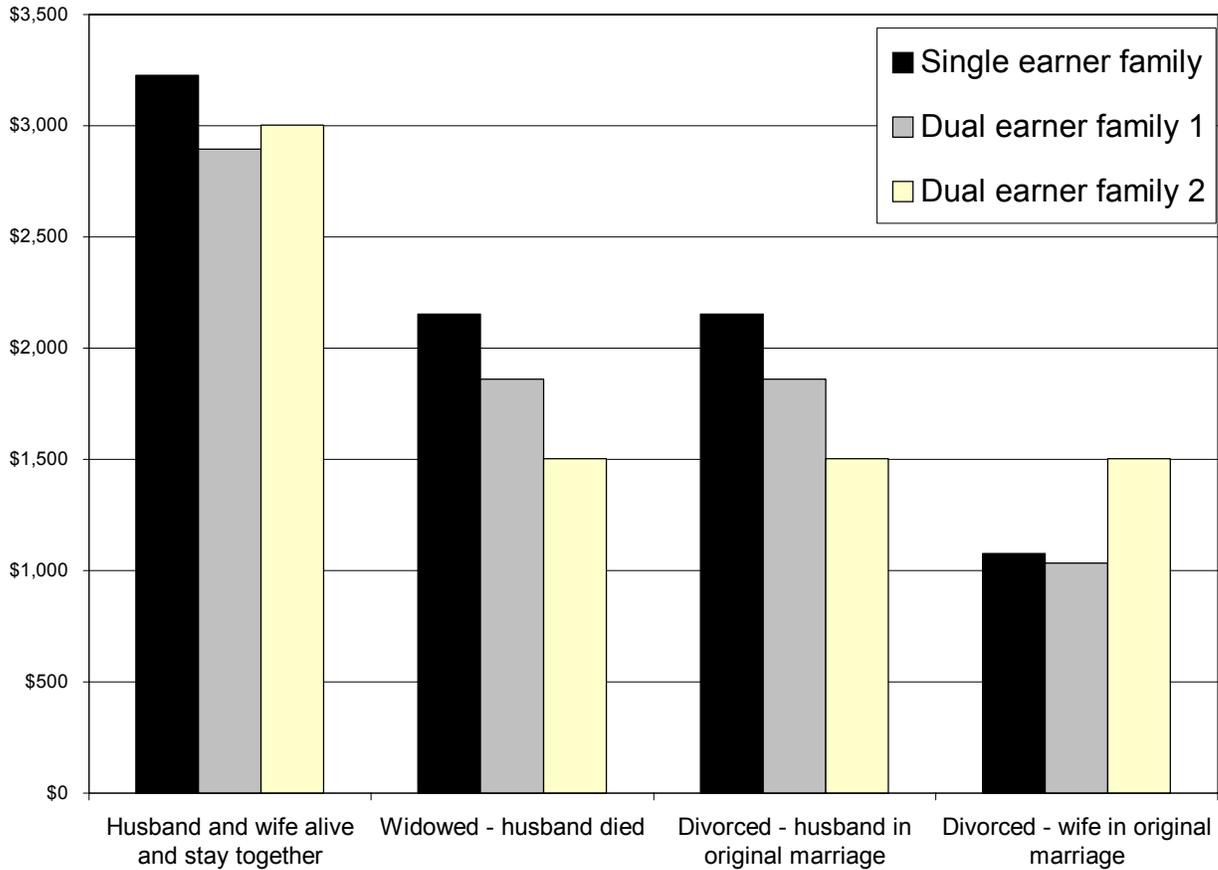
Many women are widowed and spend a number of years as widows at the end of their lives. Others are divorced and spend their last years in that status. Elderly women alone are less well off than are elderly men alone, and couples are better off than either elderly men or women who are alone.

The retirement systems are based on models of a traditional family that now make up by far the minority of families. Social Security provisions include benefits for spouses, widows, and divorced persons, but these provisions need to be modernized to reflect today's family structure. Should some part of Social Security be privatized, consideration would need to be given to how to handle these issues. Pensions also include provisions for handling these issues, but individuals do not always use these provisions well.

This paper offers a discussion of the issues related to women and families as they relate to Social Security and pensions. It discusses areas for change and provides ideas for consideration.

# Appendix

**Total Social Security Monthly Benefit  
for Three Households in Different Situations**



Situation:	Initial Stage	Death of a Spouse	Divorced: Both Spouses Are Alive
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Family	Husband and Wife Alive and Stay Together	Widowed: Husband Died	Divorced: Husband in Original Marriage	Divorced: Wife in Original Marriage
Single Earner	\$3,228	\$2,152 67%	\$2,152 67%	\$1,076 33%
Dual Earner #1	2,894	1,861 64	1,861 64	1,033 36
Dual Earner #2	3,004	1,502 50	1,502 50	1,502 50

**Assumptions:**

- In single earner family, husband earns \$70,000; in dual earner family 1, husband earns \$50,000 and wife earns \$20,000; in dual earner family 2, both husband and wife earn \$35,000 in 2001.
- Husband and wife were born on January 1, 1950, and married more than 10 years.
- Benefits shown are payable at age 65.