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Author: Steven A. Sass

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# HOW WORK & MARRIAGE TRENDS AFFECT SOCIAL SECURITY'S FAMILY BENEFITS

BY STEVEN A. SASS\*

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## Introduction

Social Security aims to provide retirees a basic old-age income after a lifetime of work. Monthly benefits were designed to replace a greater share of the earnings of low-wage workers, who spend a greater share of their income on necessities than high-wage workers. Social Security likewise includes spousal and survivor benefits. These “family benefits” were designed for the standard family unit when the program was created in the 1930s – a married couple in which the husband was the breadwinner and the wife a homemaker.

The family unit today has changed dramatically in two important ways relevant to spousal and survivor benefit design. First, most married women have significant wage employment and earn Social Security benefits on their own earnings record. Second, many women have children but never marry, and divorce rates are high among those who do marry. This *brief* reviews studies by the Social Security Administration's Retirement Research Consortium that assess the implications of these changing work and marriage patterns on Social Security's effectiveness in providing families a basic old-age income.

The discussion proceeds as follows. The first section provides a primer on Social Security spousal and survivor benefits. The second section reviews the erosion of these benefits due to the increased employment of married women. The third section discusses how changing marital patterns have increased the share of families not covered by Social Security's family benefits, potentially leaving them with insufficient incomes in retirement. The fourth section assesses two family benefit alternatives – earnings sharing and caregiving credits – that could boost retirement incomes for divorced and never-married mothers. The final section concludes that the structure of family benefits could be enhanced to improve the retirement security of today's families.

## Social Security Family Benefits

Social Security spousal and survivor benefits guarantee the spouse with lower lifetime earnings a benefit based on the higher-earner's record. Individuals who are divorced are entitled to these benefits only if the marriage lasted 10 years or more. While spousal and

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\* Steven A. Sass is a research economist at the Center for Retirement Research at Boston College.

survivor benefits are not gender based, they typically go to women because women tend to work less and earn less than men, so, for simplicity, the spouse with lower earnings will be called the wife. The basic benefits are as follows:

- **Spousal benefits** guarantee the wife a Primary Insurance Amount (PIA) – a benefit at her Full Retirement Age (FRA) – equal to half her husband’s PIA.
- **Survivor benefits** guarantee a widow a benefit equal to her husband’s actual benefit.<sup>1</sup>

If a woman is eligible for a worker benefit based on her own earnings history that exceeds the spousal or survivor benefit, she will receive the larger amount. If her worker benefit is lower, then she is “topped up” to the level of the spousal or survivor benefit. The labor force activity of women has a significant effect on the couple’s replacement rate, which is the household’s total Social Security benefit as a percentage of pre-retirement earnings. As women work, they increase the couple’s pre-retirement earnings more than their Social Security benefits, so the household’s replacement rate declines.

Table 1 illustrates how benefits change as the wife’s lifetime earnings rise relative to her husband’s lifetime earnings. The illustration assumes both spouses claim at the FRA and that the husband’s benefit replaces 40 percent of his pre-retirement earnings. The first column shows the traditional case where the wife has zero earnings and a full spousal benefit that boosts the household replacement rate to 60 percent. Between the first and second columns, the wife is “dually entitled” – entitled to a benefit based on her own earnings record and a spousal top-up based on her husband’s earnings record; thereafter her benefit is based solely on her own earnings record. The household replacement rate drops as the wife’s earnings rise relative to her husband’s earnings. Regardless of the wife’s earnings, the dollar amount of her survivor benefit remains unchanged. But it replaces a declining share of a couple’s combined benefits once she earns more than a third of what her husband earns.

TABLE 1. ILLUSTRATION: RATIO OF WIFE’S-TO-HUSBAND’S EARNINGS AND EFFECTS ON HOUSEHOLD REPLACEMENT RATES AND SURVIVOR BENEFITS

Benefit measure	Ratio of wife’s to husband’s earnings			
	0%	33%	67%	100%
Household replacement rate	60	45	42	40
Survivor benefit as % of couple’s benefit	67	67	57	50

Note: Assumes both spouses claim at the FRA and the husband’s benefit replaces 40 percent of pre-retirement earnings.

Source: Author’s calculations.

Members of the Social Security Retirement Research Consortium have conducted various studies on family benefit issues, which cover four general areas: 1) family benefit financial incentives, including the rising incentive for married men to delay claiming and the general lack of response to these incentives; 2) the distributional effects of Social Security family benefits; 3) the impact of the rising labor force participation of women on household replacement rates; and 4) the decline in marriage. This *brief* reviews the studies in the latter two areas: women’s labor force activity and marriage patterns. The specific focus is on the implications of these studies for Social Security’s ability to assure families a basic old-age income, and whether other family benefit designs could be more effective. Studies not mentioned in this brief are listed in a [separate Appendix](#) with their abstracts.

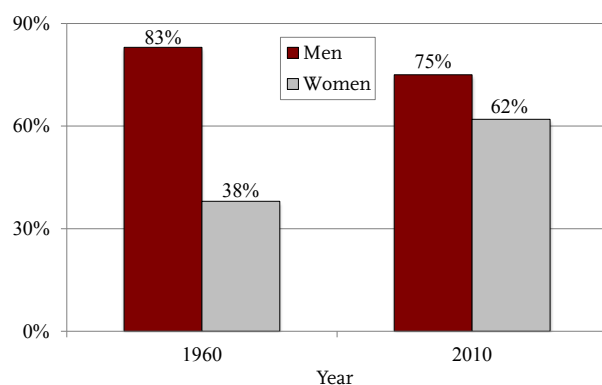
## Working Wives and the Erosion of Family Benefits

As late as 1960, over 55 percent of women receiving Social Security retirement benefits collected only as a spousal or survivor, with their benefits based solely on their husband’s earnings record. But women now work outside the home nearly as much as men (see

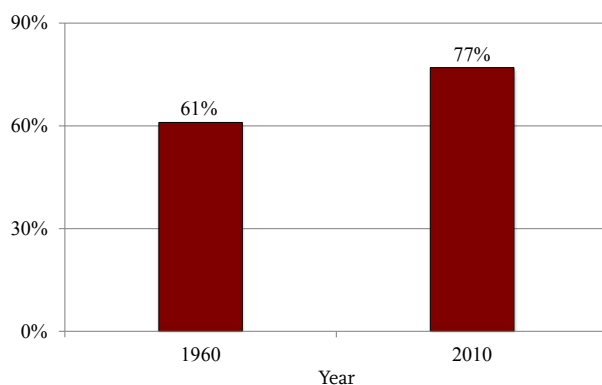
Figure 1a) and bring home incomes much closer to what men bring home (see Figure 1b). Because married women work more and earn more, they make a substantial contribution to the household's pre-retirement income and enter retirement with more Social Security benefits based on their own earnings records.

FIGURE 1. CHANGES IN LABOR FORCE AND EARNINGS PATTERNS BY SEX, 1960 AND 2010

a. Labor Force Participation Rates



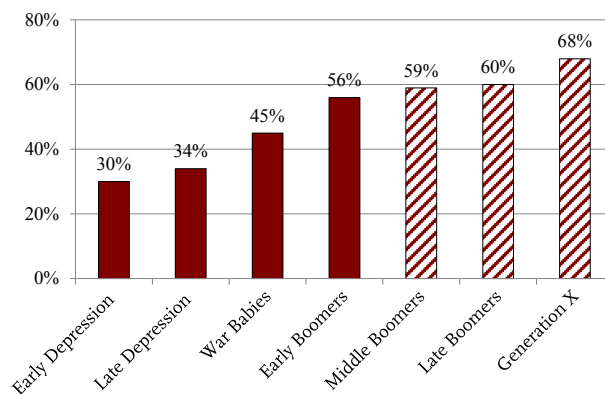
b. Women's Earnings as a Percentage of Men's Earnings



Notes: Labor force participation rates are adjusted to the age structure of the population in 1960. Earnings are median annual earnings of full-time, full-year workers. Sources: Szafran (2002); and U.S. Census Bureau (1961, 2011).

A study by April Yanyuan Wu, Nadia S. Karamcheva, Alicia H. Munnell, and Patrick Purcell, using the Social Security Administration's Modeling Income in the Near Term (MINT) microsimulation model, analyzes the rise in the lifetime earnings of married women relative to the lifetime earnings of their husbands, and its effect on household Social Security benefits, by cohort. It finds a dramatic increase in the ratio of wife's-to-husband's lifetime earnings in the War Baby and Early Boomer cohorts that entered the labor force in the 1960s and 1970s (see Figure 2).

FIGURE 2. MEDIAN RATIO OF WIFE'S TO HUSBAND'S LIFETIME EARNINGS, BY BIRTH COHORT

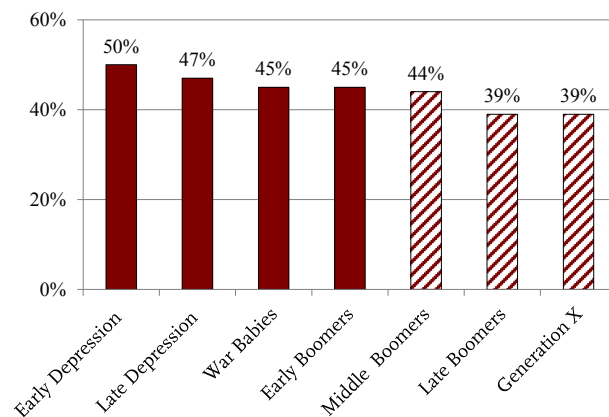


Notes: Striped bars are projections. See endnote 2 for cohort definitions. Source: Wu et al. (2013).

The increased employment of married women sharply reduced the contribution of spousal and survivor benefits as a source of household retirement incomes. Over half of all women born in the early years of the Depression, who became eligible for benefits in the mid-1990s, were entitled to a family benefit when they first claimed. In contrast, less than a third of Early Boomer women, who became eligible for benefits between 2010 and 2015, were so entitled, and the family benefits they received replaced a smaller

share of their pre-retirement earnings. According to the study, this decline in family benefits was the main contributor to the decline in household Social Security replacement rates, which fell from 50 percent for the cohort born in the early years of the Depression to 45 percent for the War Baby and Early Boomer cohorts (see Figure 3).<sup>3</sup>

FIGURE 3. MEDIAN HOUSEHOLD SOCIAL SECURITY REPLACEMENT RATES, BY BIRTH COHORT



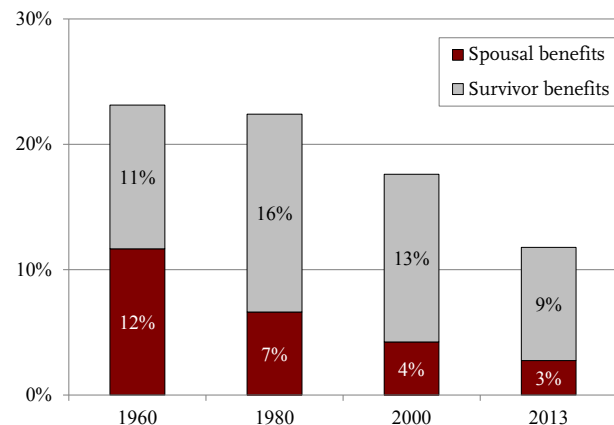
Notes: Replacement rates are the household's benefits divided by the household's Average Indexed Monthly Earnings as calculated by the Social Security Administration. Striped bars are projections. See endnote 2 for cohort definitions. Source: Wu et al. (2013).

The study projects another significant jump in the ratio of wife's-to-husband's lifetime earnings for GenX couples, who will become eligible for benefits after 2028. It also projects a further decline in household Social Security replacement rates, to 39 percent of pre-retirement earnings. However, it attributes essentially none of this projected reduction in replacement rates to the rising ratio of wife's-to-husband's earnings. Therefore, the effect of the rising employment of women on Social Security spousal benefits and, thereby, replacement rates at first claiming, has largely played out.

The same is not true for survivor benefits. Most GenX wives will outlive their husbands and collect a survivor benefit when widowed. Barbara A. Butrica and Karen E. Smith, using the MINT microsimulation model, project that two-thirds of GenX wives will earn less than their husbands and be entitled to a survivor benefit, down from 82 percent of War Baby widows.<sup>4</sup>

Not surprisingly, overall, family benefits account for a much smaller percentage of Social Security outlays today than they did in the past (see Figure 4). Outlays have fallen much more for spousal than for survivor benefits. Most wives still get a survivor benefit if widowed, and survivor benefits disproportionately go to women in older cohorts who did not have significant employment records. But as older widows die and future widows have more substantial worker benefits, family benefits will likely account for an even smaller share of Social Security outlays.

FIGURE 4. SPOUSAL AND SURVIVOR BENEFITS AS A PERCENTAGE OF TOTAL BENEFITS PAID TO RETIRED WORKERS, SPOUSES, AND SURVIVORS, 1960-2013



Source: U.S. Social Security Administration (2015).

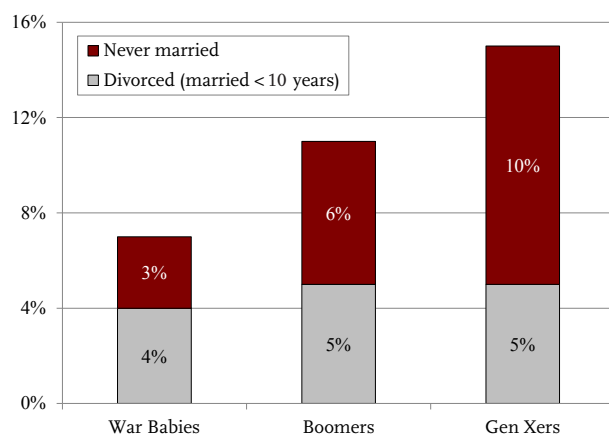
In sum, the dramatic rise in the employment of married women has diminished the importance of spousal and survivor benefits. Correspondingly, it has led to a significant decline in family benefits as a source of retirement income and as a share of Social Security outlays.

## Growth of Single Mothers with Inadequate Benefits

As the employment of married women shot up in Baby Boom cohorts, so did the incidence of divorce and nonmarital births. This trend sharply increased the percentage of families headed by single mothers, which Social Security spousal and survivor benefits were not designed to serve. Data provided by Butrica

and Smith show a sharp increase in the share of retired Boomers and GenX mothers who will be “never married” when they reach age 70, with just a slight change in the share who will be divorced from a marriage of less than 10 years (see Figure 5).

FIGURE 5. PERCENTAGE OF MOTHERS AGE 70 PROJECTED TO BE NEVER MARRIED OR MARRIED LESS THAN 10 YEARS, BY BIRTH COHORT

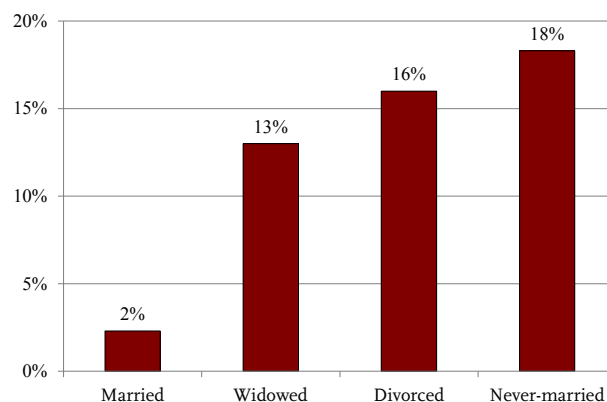


Notes: Never-married includes single women and women in an unmarried couple. See endnote 5 for cohort definitions. Source: Unpublished data provided by Barbara Butrica, based on research in Butrica and Smith (2012b).

Even more than for mothers in traditional two-parent families, child-rearing responsibilities limit the time that divorced and unmarried mothers spend in the labor market, impede their advancement to better-paying jobs, and thereby reduce their ability to earn an adequate Social Security benefit. But aside from divorced women whose marriages lasted at least 10 years, their benefit is only based on their own earnings record.

While widows today are the largest group of the elderly in poverty, elderly divorced and never-married women have higher poverty rates (see Figure 6). In part, the reason is that divorce rates and births to unmarried mothers are especially high among groups that tend to have low lifetime earnings and retirement incomes. But it is also due to the fact that most of these women are mothers, and child-rearing responsibilities impede their ability to earn Social Security retirement benefits. A study by Richard W. Johnson and Melissa M. Favreault finds that women ages 65-

FIGURE 6. POVERTY RATES OF WOMEN AGES 65 AND OVER BY MARITAL STATUS, 2012



Source: U.S. Social Security Administration (2015).

74 who spent at least 10 years as a single mother were 55 percent more likely to be poor than continuously married mothers of similar education and ethnicity.<sup>6</sup>

## Proposals to Restructure Family Benefits

Policy experts have proposed various alternatives that would strengthen benefits for divorced and never-married mothers who are not well served by the current spousal and survivor benefit design. Two alternatives are discussed here: earnings sharing and caregiving credits. Of these two options, earnings sharing is often seen as involving more redistribution and administrative complexity.

A study by Melissa M. Favreault and C. Eugene Steuerle, using the Urban Institute’s DYNASIM3 microsimulation model, estimates the effect of earnings sharing and caregiving credit proposals that do not raise program costs:<sup>7</sup>

- **Earnings sharing.** The proposal assessed would: 1) eliminate spousal and survivor benefits, allowing a 4.5-percent across-the-board increase in worker benefits; 2) credit each spouse with half the couple’s earnings when calculating Social Security benefits; and 3) reduce each spouse’s benefit at retirement to fund a survivor benefit equal to two thirds of the couple’s combined benefit.<sup>8</sup>

- **Caregiving credits.** The proposal assessed would: 1) replace spousal benefits with caregiving credits; 2) top up the earnings of an individual caring for a child, age six or under, to half the average wage when calculating Social Security benefits (so caregivers earning more than half the average wage receive no credit); and 3) provide credits for up to seven years of caregiving.<sup>9</sup>

Earnings sharing increases the benefits earned by married women, and thus the benefits earned by married women who later divorce. A unique feature of the proposal assessed here is the requirement that each married couple pay for its own survivor benefit through a reduction in the couple's initial retirement benefits. Favreault and Steuerle consider this requirement more equitable than the current design, which covers the cost using taxes paid by all households, including single and unmarried households that do not get survivor benefits and tend to be less well-off than married households.<sup>10</sup>

Caregiving credits base family benefits on child-rearing rather than marital status.<sup>11</sup> They boost the retirement benefits earned by mothers, whether single, married, divorced, or in an unmarried couple. If they replace spousal benefits, as in the proposal assessed, survivor benefits would be the only family benefit provided to married couples without children. By capping the credit, the proposal further reduces the family benefits accrued by higher-income households.

The study estimates the change in benefits under each proposal when the new design is fully phased in, in 2049. Table 2 identifies the winners and losers, identified by the share of men and women in different family structures estimated to see at least a 5-percent increase in benefits, minus the share estimated to see at least a 5-percent reduction. Thus, the earnings sharing proposal on balance is projected to shift benefits away from many married men and women when both spouses are alive to the widowed spouse. This policy would also increase benefits for a significant share of divorced women, when their ex-husband dies. The caregiving proposal is projected to reduce the benefits of a much smaller share of married men and women when both are alive; increase benefits for a much smaller share of widows and divorced women; but increase benefits for a significant share of never-married women, an especially economically vulnerable group.<sup>12</sup>

TABLE 2. NET WINNERS (WINNERS MINUS LOSERS) FROM A SHIFT TO A NEW FAMILY BENEFIT DESIGN, BY SEX AND MARITAL STATUS

	Earnings sharings		Caregiving credits	
	Men	Women	Men	Women
Married				
Both spouses alive	-41%	-45%	-10%	-7%
Widowed	36	38	0	4
Divorced	-3	32	-4	10
Never married	2	1	0	23

Note: Share estimated to see at least a 5-percent increase in benefits minus the share estimated to see at least a 5-percent reduction.

Source: Favreault and Steuerle (2007).

Both proposals create winners and losers, and concerns for the losers (primarily divorced and married men) could potentially pose political challenges. The study's projections show the earnings sharing proposal would create more losers, and thus could encounter more opposition than a shift to caregiving credits. Earnings sharing is also generally seen as more complex and more costly to administer, and it does not help never-married women. Caregiving credits could thus be the more likely family benefit alternative to the current spousal-and-survivor benefit design.

## Conclusion

Social Security spousal and survivor benefits were designed to provide a basic old-age income to families in which the wife had little or no wage employment. Today, very few wives fit this mold, which has diminished the importance of Social Security family benefits as a source of retirement income. At the same time, changing marital patterns have reduced the program's ability to help a large number of divorced and unmarried mothers whose labor market opportunities are constrained by their caregiving responsibilities. Altering Social Security to address these concerns would need to overcome significant political and administrative challenges. But it is worth considering whether other designs would more effectively provide today's families a basic old-age income after a lifetime of work.



## Endnotes

1 Spousal and survivor benefit amounts are reduced if they are claimed prior to the recipient's FRA. Spousal benefits are also available only when the husband has claimed. When first introduced in 1939, the survivor's benefit provided a widow with 75 percent of the husband's PIA. It was raised to 82.5 percent in 1961 and 100 percent in 1972.

2 Cohort birth years are: Early Depression (1931-35), Late Depression (1936-41), War Babies (1942-47), Early Boomers (1948-53), Middle Boomers (1954-59), Late Boomers (1960-65), and Generation X (1966-75).

3 The study finds the increased employment of married women reduced the average replacement rate for all U.S. households, whether married or not, by 4 percentage points from the Early Depression to the Early Boomer cohort. This reduction in replacement rates has helped Social Security's solvency (see Munnell, Sanzenbacher, and Soto 2007).

4 Butrica and Smith (2012a).

5 These cohort birth years differ somewhat from the birth years in other studies cited in this brief. The birth years here are: War Babies (1936-45), Boomers (1946-65), and Generation X (1966-78).

6 Johnson and Favreault (2004).

7 Favreault and Steuerle (2007).

8 A survivor benefit equal to two thirds of the couple's combined benefit is about what is needed to maintain the standard of living provided by the larger couple's benefit, according to standard equivalence scales used to adjust consumption needs for households of different sizes. See Forster and Levy (2013) on the OECD equivalence scale.

9 For information on variations in the design of caregiving credits, see Herd (2006) and Jankowski (2011).

10 Gustman, Steinmeier, and Tabatabai (2013) shows that Social Security spousal and survivor benefits disproportionately go to higher-income households.

11 For more details on caregiving credit programs, which are common in other OECD countries, see Jankowski (2011) and Fultz (2011).

12 For another analysis of the potential distributional effects of caregiving credits in the United States, see Herd (2006).



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### Contact Information

Center for Retirement Research  
Boston College  
Hovey House  
140 Commonwealth Avenue  
Chestnut Hill, MA 02467-3808  
Phone: (617) 552-1762  
Fax: (617) 552-0191  
E-mail: [crr@bc.edu](mailto:crr@bc.edu)  
Website: <http://crr.bc.edu>

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