

## How Women Fare in Social Security Reform

### Commentary

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WASHINGTON - Women Democratic senators recently sent President Bush a letter decrying his proposal to divert some payroll taxes into individual accounts, on the grounds that women would take a financial beating. Although many feminist groups hold this view, little empirical evidence supports it.

The real worry—for women and men alike—is that the system faces enormous financial pressures. By 2030, there will be only two workers for every retiree, compared to slightly more than three today. Our country is aging, and the benefits promised by law are not sustainable with so few workhorses to pull each retiree's cart.

Projections show that Social Security benefits must fall dramatically relative to taxes paid, as baby boomers retire and the work force shrinks. As this demographic shift takes place, it's important to understand women's long-run prospects under specific reform proposals.

By using a demographic model designed by the Urban Institute to mathematically model birth and death rates, marriage and divorce rates, and employment and wage rates into the future, we get a picture quite different from that painted by many women's advocates.

To bring that picture into focus, let's assume that lawmakers initiated reforms in 2000 that relieved Social Security's financial pressure by reducing benefits across the board. Let's also assume that 40 years pass—the span of a career.

In 2040, a 27 percent cut in benefits would be needed to balance revenues with pay-outs, and another sizable cut would be needed to finance the diversion of two percentage points of the payroll tax into individual accounts. Benefit cuts would total 40 percent in all.

If financial markets follow historical trends, earnings from a mixed portfolio of stocks and bonds would beat inflation by 5.5 percent after reasonable administrative costs were deducted. For 99 percent of all women, that would be more than enough to offset the benefits cuts used to finance these accounts.

Even if their investments returned only 4 percent a year, 93 percent of all women would earn enough on them to make up for the difference between a 27 percent and a 40 percent cut.

Would women in different family and financial situations fare the same?

Roughly speaking, married women, widows, divorced women and never-married women would. That said, women with high average lifetime wages would come out ahead of women who earned less.

But nearly three-fourths of those who made less than half the average would be better off with individual accounts than without them. (Many of the poorest of these women would qualify for Supplemental Security Income, the welfare program for the elderly and disabled, so Social Security reform wouldn't touch them much anyway.)

Even if the return on investment were only 4 percent, the average retirement benefit for women from an individual account would be 19 percent below what the current system would pay in 2040, if it is still solvent.

With the rosier but still quite temperate return of 5.5 percent, the benefit is only 2 percent lower than it would be under today's Social Security laws.

Given a choice, most women would surely prefer preserving today's benefit levels by adding a small amount to their individual account, rather than pay the 37 percent payroll tax increase necessary to maintain benefits under the current system.

Women's retirement income could be even higher if government uses income tax credits to finance

contributions to individual accounts rather than cutting benefits to pay for the diversion of payroll taxes.

Then average retirement income would be 6 percent below what current law provides with the lower rate of return on investment and 11 percent higher with the historical rate.

But that leaves government with painful choices—increasing other taxes, cutting other programs or taking out loans to cover lost income tax revenue.

Women (and men) would watch pensions grow but other benefits or take-home pay shrink.

Imperfect like all reforms, this one will strand some women. For example, if the survivors' benefits in the Social Security package are cut as much as pension benefits, young widows with more than one child are almost certain to lose out and will need help.

Both women and men could be in trouble if they skimp on other forms of saving once they start accumulating a nest egg in individual accounts, or if government finances reform in a way that harms economic growth. Even if retirees are not hurt, lower growth could hurt everyone else.

Those looking out for older women need to steer clear of subtle traps as the debate over Social Security's future gathers force. One is turning a blind eye to the difficult funding problems facing the system. More grievous would be to overlook the benefits of individual accounts.

If women's advocates avoid both mistakes, their next letter to President Bush may be a thank-you note.

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