

Marriage and Retirement Security

Trends and Implications

Retirement Issues,
Plans and Lifestyles

IAN M. STYLES
EDITOR

NOVA

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 **nova**

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TRENDS AND IMPLICATIONS

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PREFACE

Marriage has historically helped protect the financial health of couples and surviving spouses in old age. Based on their marriage, and independent of their own work history, spouses may receive retirement and survivor income through Social Security and some employer-sponsored pension plans. Many of the federal requirements governing these benefits were developed at a time when family structures, work patterns, and pensions were very different from what they are today. In recent decades, marriage has become less common, more households have two earners rather than one, and many employers have shifted from DB plans to DC plans. This book examines the trends in and status of marriage and labor force participation in American households; how those trends have affected spousal benefits and retirement savings behavior within households today; and the implications of these trends for future retirement security.

Chapter 1 - Marriage has historically helped protect the financial health of couples and surviving spouses in old age. Based on their marriage, and independent of their own work history, spouses may receive retirement and survivor income through Social Security and some employer-sponsored pension plans. Many of the federal requirements governing these benefits were developed at a time when family structures, work patterns, and pensions were very different from what they are today. In recent decades, marriage has become less common, more households have two earners rather than one, and many employers have shifted from DB plans to DC plans. In light of these trends, GAO was asked to examine the issue of marriage and retirement security. Specifically, GAO examined: (1) the trends in and status of marriage and labor force participation in American households, (2) how those trends have affected spousal benefits and retirement savings behavior within

households today, and (3) the implications of these trends for future retirement security. GAO analyzed nationally representative survey data including the Survey of Consumer Finances, the Survey of Income and Program Participation, and the Current Population Survey (CPS); conducted a broad literature review; and interviewed agency officials and a range of experts in the area of retirement security.

GAO is making no recommendations. GAO received technical comments on a draft of this report from the Department of Labor and the Department of the Treasury, and incorporated them, as appropriate.

Chapter 2 - The Social Security program began in the 1930s and has been modified by Congress many times over the past seven decades. Today, Social Security provides monthly cash benefits to retired or disabled workers and their family members, and to the family members of deceased workers. Among the beneficiary population, approximately 81% are retired or disabled workers, and 19% are the family members of retired, disabled, or deceased workers. In November 2013, 57.9 million beneficiaries received a total of \$67 billion in benefit payments for the month. The average benefit payment was \$1,164.

Workers become eligible for Social Security benefits for themselves and their family members by working in Social Security-covered employment. An estimated 93% of workers in paid employment or self-employment are covered, and their earnings are subject to the Social Security payroll tax. In 2014, employers and employees each pay 6.2% of covered earnings, up to the annual limit on taxable earnings (\$117,000 in 2014).

To be eligible for a Social Security retired-worker benefit, a person generally needs at least 40 earnings credits, or 10 years of Social Security-covered employment (among other requirements). Fewer earnings credits are needed for a disabled-worker benefit, depending on the worker's age. A worker's initial monthly benefit is based on his or her career-average earnings in covered employment. Social Security retired-worker benefits are first payable at the age of 62, subject to a permanent reduction for early retirement. Full (or unreduced) retirement benefits are first payable at the full retirement age (FRA), which is increasing gradually from 65 to 67 under a law enacted by Congress in 1983. The FRA will reach 67 for persons born in 1960 or later (i.e., persons who become eligible for retirement benefits at the age of 62 in 2022 or later).

In addition to payroll taxes, Social Security is financed by federal income taxes that some beneficiaries pay on a portion of their benefits and by interest income that is earned on the Treasury securities held by the Social Security

trust funds. In 2012, the Social Security trust funds had receipts totaling \$840 billion, expenditures totaling \$786 billion, and accumulated assets (in the form of Treasury securities) totaling \$2.7 trillion. Projections by the Social Security Board of Trustees show that, based on the program's current financing and benefit structure, benefits scheduled under current law can be paid in full and on time until 2033. The projections also show that Social Security expenditures will exceed income by about 20% *on average* over the next 75 years. Restoring long-range trust fund solvency and other policy objectives have made Social Security reform an issue of ongoing congressional interest and debate.

This report provides an overview of Social Security financing and benefits under current law. Specifically, the report covers the origins and a brief history of the program; Social Security financing and the status of the trust funds; how Social Security benefits are computed; the types of Social Security benefits available to workers and their family members; the basic eligibility requirements for each type of benefit; the scheduled increase in the Social Security retirement age enacted in 1983; and the federal income taxation of Social Security benefits.

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Chapter 1

RETIREMENT SECURITY: TRENDS IN MARRIAGE AND WORK PATTERNS MAY INCREASE ECONOMIC VULNERABILITY FOR SOME RETIREES^{*}

United States Government Accountability Office

WHY GAO DID THIS STUDY

Marriage has historically helped protect the financial health of couples and surviving spouses in old age. Based on their marriage, and independent of their own work history, spouses may receive retirement and survivor income through Social Security and some employer-sponsored pension plans. Many of the federal requirements governing these benefits were developed at a time when family structures, work patterns, and pensions were very different from what they are today. In recent decades, marriage has become less common, more households have two earners rather than one, and many employers have shifted from DB plans to DC plans. In light of these trends, GAO was asked to examine the issue of marriage and retirement security. Specifically, GAO examined: (1) the trends in and status of marriage and labor force participation in American households, (2) how those trends have affected spousal benefits

^{*} This is an edited, reformatted and augmented version of United States Government Accountability Office Publication, No. GAO-14-33, dated January 2014.

and retirement savings behavior within households today, and (3) the implications of these trends for future retirement security. GAO analyzed nationally representative survey data including the Survey of Consumer Finances, the Survey of Income and Program Participation, and the Current Population Survey (CPS); conducted a broad literature review; and interviewed agency officials and a range of experts in the area of retirement security.

GAO is making no recommendations. GAO received technical comments on a draft of this report from the Department of Labor and the Department of the Treasury, and incorporated them, as appropriate.

WHAT GAO FOUND

Over the last 50 years, the composition and work patterns of the American household have changed dramatically. During this period, the proportion of unmarried and never-married individuals in the population increased steadily as couples chose to marry at later ages and live together prior to marriage. At the same time, the proportion of single-parent households more than doubled. These trends were more pronounced for individuals with lower levels of income and education and for certain racial and ethnic groups. Over the same period, labor force participation among married women nearly doubled.

Taken together, these trends have resulted in a decline in the receipt of spousal and survivor benefits and married women contributing more to household retirement savings. From 1960 through 2011, the percentage of women aged 62 and older receiving Social Security benefits based purely on their spouse's (or deceased spouse's) work record declined from 56 to 25. At the same time, the percentage of women receiving benefits based purely on their own work records rose from 39 to 48.

Further, as of 2010, among married households receiving pensions, 40 percent had elected not to receive a survivor benefit. Rising labor force participation among married women enabled them to contribute more to household retirement savings. From 1992 to 2010, married women's average contributions to household retirement savings increased from 20 to 38 percent.

In the future, fewer retirees will receive spousal or survivor benefits from Social Security and private employer-sponsored pension plans, increasing vulnerabilities for some.

Eligibility for Social Security spousal benefits among women is projected to decline, in part, because fewer women are expected to qualify based on

marital history and more are expected to qualify for their own benefit based on their own work record. For many women, this shift will be positive, reflecting their greater earnings and capacity to save for retirement. However, women with low levels of lifetime earnings and no spouse or spousal benefit may face greater risk of poverty in old age. For private plans, the shift from defined benefit (DB) to defined contribution (DC) plans increases the vulnerability of spouses because of different federal protections for spouses under these plans.

DB plans are required to offer survivor benefits, which can only be waived with spousal consent. In contrast, DC plan participants generally do not need spousal consent to withdraw funds from the account.

ABBREVIATIONS

BLS	Bureau of Labor Statistics
Census	U.S. Census Bureau
CPS	Current Population Survey
DB	defined benefit
DC	defined contribution
DOMA	Defense of Marriage Act
ERISA	Employee Retirement Income Security Act of 1974
Federal Reserve	Board of Governors of the Federal Reserve System
IPUMS	Integrated Public Use Microdata Series
IRA	individual retirement account
IRC	Internal Revenue Code
QDRO	qualified domestic relations order
QJSA	qualified joint and survivor annuity
QPSA	qualified preretirement survivor annuity
MINT6	Modeling Income in the Near Term model, Version 6
SCF	Survey of Consumer Finances
SIPP	Survey of Income and Program Participation
SSA	Social Security Administration

January 15, 2014

The Honorable Bill Nelson
Chairman
Special Committee on Aging
United States Senate

Dear Chairman Nelson:

Historically, the institution of marriage has served to help protect the financial health of couples, especially couples and surviving spouses in old age. Indeed, based on their marriage, spouses may receive retirement and survivor income from Social Security and some employer-sponsored pension plans.¹ More specifically, Social Security retirement benefits—the most common type of retirement income—are available to individuals who are spouses, widows/widowers, and in some cases former spouses, of workers who qualify for Social Security retirement benefits based on their work history. In addition, private sector defined benefit (DB) plans are required by federal law to include a survivor's benefit for spouses.²

However, many of the policies governing spousal retirement benefits were developed at a time when family structures, labor force participation patterns, and retirement plans were very different than they are today. In recent decades, marriage has become less common, and for those who do marry, it is common for both spouses to work. Further, private sector employers have shifted away from DB plans to defined contribution (DC) plans, which generally confer fewer benefits for spouses.³

Given these trends, the Senate Special Committee on Aging requested that GAO examine the issue of marriage and retirement security. Specifically, we examined (1) the trends in and status of marriage and labor force participation in American households, (2) how those trends have affected spousal benefits and retirement savings behavior within households today, and (3) the implications of these trends for future retirement security.

To address these questions, we analyzed several nationally-representative datasets, conducted an extensive literature review, and consulted with a wide range of experts. Specifically, to understand trends in family structure and work patterns, we analyzed data from the 1996 and 2008 panels of the Survey of Income and Program Participation (SIPP); the Integrated Public Use Microdata Series (IPUMS); and recent U.S. Census Bureau (Census) and Bureau of Labor Statistics (BLS) publications, which report on analyses of

nationally-representative datasets such as the Current Population Survey (CPS). To determine the characteristics of the population receiving Social Security spousal benefits, we analyzed the 2008 restricted-use version of the SIPP data—known as the “Gold Standard” file—SIPP data that have been matched to administrative data on earnings and benefits from the Social Security Administration (SSA).⁴

To determine the characteristics of the population receiving spousal benefits through pensions, we used the 2010 version of the Survey of Consumer Finances (SCF), conducted by the Board of Governors of the Federal Reserve System (Federal Reserve). We also used the 2010 SCF to analyze retirement savings behavior among working-age households. To project the distribution of Social Security beneficiary types for women into the future, officials from the Office of Retirement Policy at SSA provided GAO with projections based on simulations they conducted with the Modeling Income in the Near Term model, Version 6 (MINT6). We conducted data reliability assessments of selected IPUMS, SIPP, SCF, and MINT6 data by conducting electronic data tests for completeness and accuracy, reviewing documentation on the dataset, or interviewing knowledgeable officials about how the data are collected and maintained and their appropriate uses. For the purposes of our analysis, we found the variables that we ultimately reported on to be sufficiently reliable.⁵

Lastly, to deepen our understanding of our data analyses and to understand the implications of demographic trends for retirement security, we conducted an extensive literature review and interviewed 49 experts from federal agencies, academia, advocacy groups, think tanks, and industry. We identified and interviewed experts who have specialized knowledge about spousal protections and retirement security in a specific area (e.g., law or social science), or who were recommended by one or more people or groups we had previously interviewed.⁶

We conducted this performance audit from September 2012 through January 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BACKGROUND

Financial Benefits of Marriage

A number of financial benefits associated with the institution of marriage relate to the ability of a couple to pool resources, specialize, and share risk. Specifically, married people can pool resources and share costs of household goods and services, which reduces the overall cost of items that do not need to be purchased individually and frees up resources for other types of investments. In addition, within married couples, even those in which both are working, each member can specialize in certain tasks, such as managing household finances. The financial benefits of marriage can carry over into retirement as couples continue to pool resources and assist each other as the risks of disability and deteriorating health increase.

Conversely, several factors contribute to the economic vulnerability of single retirees. First, single retirees living alone do not benefit from sharing the cost of living expenses and caregiving. According to the Census Bureau's poverty measures, a single person age 65 or older needs 79 percent of the income of a two-person household.⁷ Moreover, unmarried individuals are more vulnerable to economic shocks, such as job loss, than their married counterparts. The unmarried, especially single parents, also tend to have fewer resources available to save for retirement during their working years. For example, a 2009 study shows that among all women age 35-54, never-married women with children had the lowest level of pension plan participation among all family types.⁸ Taken together, these factors are likely to contribute to the higher poverty rates observed among unmarried individuals age 65 or older (see fig. 1).

Federal law also confers a number of benefits and protections for married spouses or former spouses.⁹ In the case of certain types of retirement income, spouses or former spouses may receive retirement and survivor income based exclusively on marriage, independent of their own work history. This report focuses on four main sources of retirement income: (1) Social Security retirement benefits, (2) defined benefit (DB) plans, (3) defined contribution (DC) plans, and (4) individual retirement accounts (IRA).¹⁰ Each of these is subject to different federal requirements and provides varying types and levels of protections to spouses of workers who are eligible for Social Security, participate in an employer sponsored DB or DC plan, or own an IRA. Examples of these requirements are summarized in table 1 and described in greater detail below.

Table 1. Selected Federal Requirements Related to Spousal Benefits or Protections in Social Security Retirement Benefits, Defined Benefit and Defined Contribution Plans, and Individual Retirement Accounts

Source of Retirement Income	Marital Status at Retirement		
	Married	Widowed	Divorced
Social Security Retirement Benefits	An eligible spouse is entitled to receive up to 50% of the retired worker's benefit, unless the spouse is entitled to a higher benefit based on his or her own work history. ^a	An eligible surviving spouse is entitled to receive up to 100% of the deceased worker's benefit, unless the survivor is entitled to a higher benefit based on his or her own work history. ^a	If the marriage lasted at least 10 years, an eligible divorced spouse is entitled to receive up to 50% of the divorced retired worker's benefit (a surviving divorced spouse is entitled to receive up to 100% of the deceased worker's benefit), unless the spouse is entitled to a retired worker benefit that is higher. ^{a, b}
Defined Benefit (DB) Plans	DB plans and some DC plans must provide benefits in the form of a qualified joint and survivor annuity (QJSA) or qualified preretirement survivor annuity (QPSA), meaning the spouse is entitled to receive annuity payments for his or her life should the participant spouse die either before or after retirement. The QJSA or QPSA may be waived only with the written consent of the spouse, witnessed by a plan representative or notary. For the QJSA, the survivor benefit must be at least half of the benefit payment the participant received during their joint lives.		Benefits provided to a former spouse will depend on the plan and the divorce settlement. A DB or DC plan may assign benefits to a spouse or former spouse pursuant to a divorce if the assignment is governed by a qualified domestic relations order (QDRO).
Defined Contribution (DC) Plans	DC plans that meet the following criteria are not required to offer QPSAs or QJSAs ^c : (1) the plan provides that 100% of the participant's vested account balance is to be paid to the surviving spouse upon the death of the participant; (2) the participant does not elect a life annuity; and (3) the participant's account does not include transfers from a plan subject to the standard QJSA/QPSA benefit rules (e.g., transfers from a money purchase or a DB plan).		

Table 1. (Continued)

Source of Retirement Income	Marital Status at Retirement		
	Married	Widowed	Divorced
	Written spousal consent is required to designate a non-spousal beneficiary. DC plans that meet these criteria may allow the employee, during his or her lifetime, to make withdrawals from the account or roll over the balance into an IRA without spousal consent. ^d		
Individual Retirement Accounts	There is no federal requirement to provide individual retirement account (IRA) benefits to a spouse unless he or she is a beneficiary. In general, an IRA owner may, during his or her lifetime, make withdrawals from the account without spousal consent. ^d Upon the death of the IRA owner, any remaining assets are to be distributed to the designated beneficiary(ies), if any. If there are none, assets will be distributed in accordance with the terms of the IRA documents and applicable state inheritance laws. ^e		Benefits provided to a former spouse will depend on the IRA documents and divorce settlement. An IRA owner may transfer IRA assets tax-free into an IRA for a spouse or former spouse under a divorce instrument. ^d

Source: GAO analysis of applicable federal laws and regulations.

Notes: The specific benefits or protections a person may receive may vary depending on the individual circumstances, and additional requirements may apply that are not described here.

This table is limited to the following types of retirement income: Old-Age and Survivors Insurance benefits under the Social Security Act, DC and DB plans subject to regulation under the Employee Retirement Income Security Act and the Internal Revenue Code, and IRAs subject to requirements of the Internal Revenue Code.

^a Other factors may affect the actual benefit amount. For example, actuarial reductions apply if workers/spouses claim benefits before full retirement age (which varies depending on the person’s year of birth), with different size reductions for workers and spouses. Delayed retirement credits apply if they wait to collect benefits until after full retirement age.

^b Special rules apply if a worker has been married more than once.

^c Some DC plans, such as money purchase plans, are required to comply with the same requirements as DB plans (i.e., provide a QJSA or QPSA, and require the spouse’s written consent to change this form of benefit).

^d Pre-retirement withdrawals from DC plans and IRAs may be subject to tax penalties.

^e Although the Internal Revenue Code provides for certain advantages for a spouse who is a designated beneficiary, the IRA owner is not required to designate his or her spouse as a beneficiary. There is also no federal requirement that an IRA owner