Minnesota Women & Money

A study of insurance, retirement income, credit, and taxes

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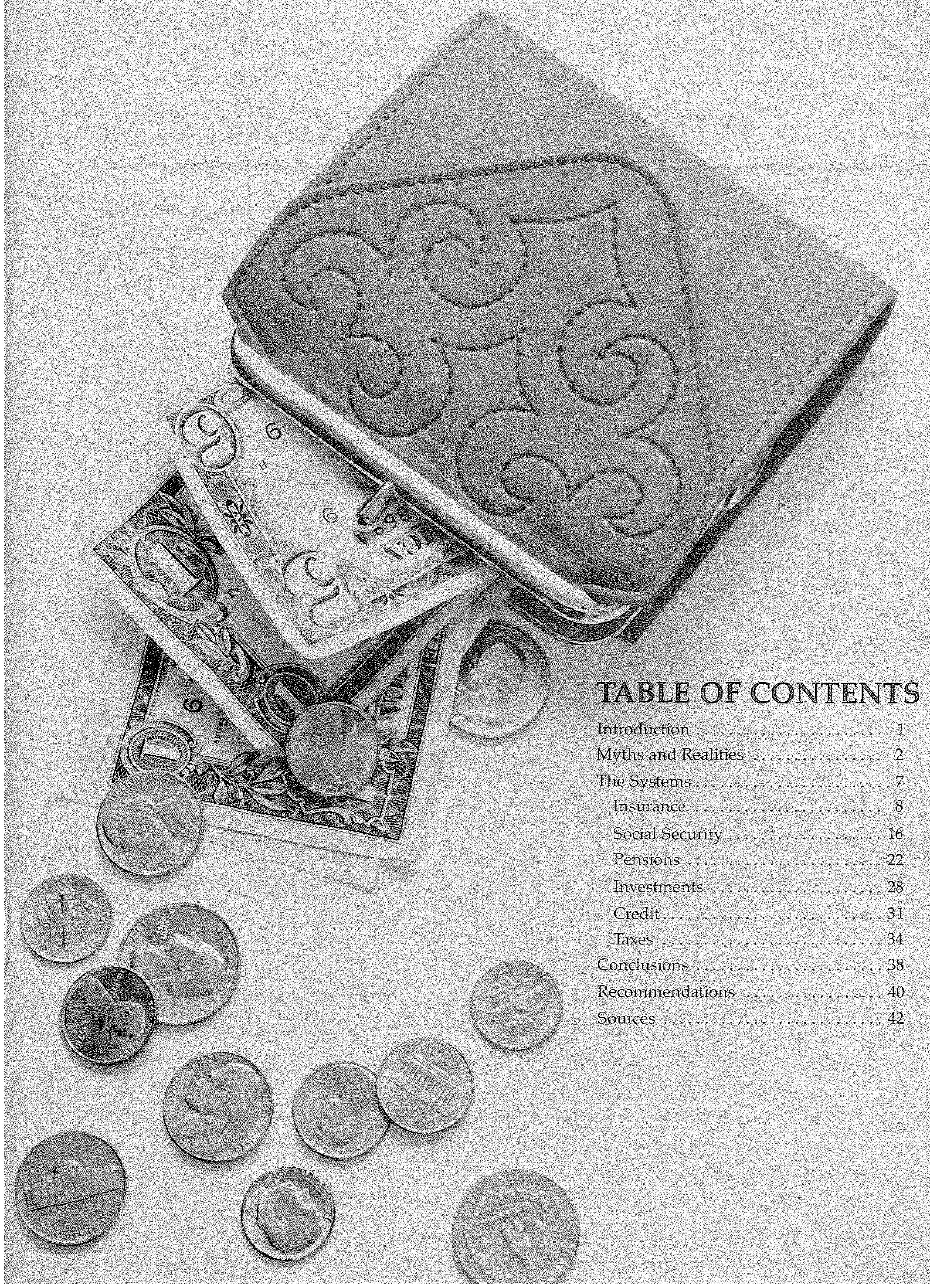
January 1979



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Most women, regardless of their marital or parental status, work outside the home for some portion of their adult lives. The labor force participation rate for Minnesota women between the ages of 16 and 65 is now 63%. For them and for their families, their employment is a financial necessity.

The so-called "typical" family of four — that is, an employed husband, a wife who does not work outside the home, and two children under 18 — comprised only 6% of all Minnesota families in 1977.

Many women count themselves fortunate to have an adequate paycheck, enough to "get by." But many of them sooner or later face the fact that they are not protected against illness, disability, death, or other situations.

This report is a study of economic security: the ability to provide for contingencies and to look forward to a comfortable future without fear of poverty. It recognizes the fact that the financial well-being of the individual in a long-range sense is dependent on many factors beyond current employment status. Many women have come to the painful realization that their hard-earned paychecks will not buy them equal access to the protections available to their male co-workers. The distinction lies in the area of non-wage income or "invisible money."

Employee fringe benefits, one important form of non-wage income, have become a significant factor in employment decisions. Payroll deductions may amount to one-third of the worker's total earnings. Access to other kinds of economic opportunities is controlled by financial institutions such as banks and government agencies such as the Internal Revenue Service.

This money seems "invisible" for many reasons. The individual employee often has no control over fringe benefit programs. Legislation governing programs such as Social Security is extremely complex. Comparison-shopping for insurance or credit is difficult when the actual policy or loan agreement is unseen until after the sale has been made. Financial transactions can be hard to understand even when reading the document, which is likely to contain a great deal of "fine print" and legal jargon.

Women are less likely than men to have the awareness or training necessary to take advantage of financial opportunities. They have not been encouraged to take themselves seriously as economic entities. Since financial institutions have failed to accurately assess women's needs and the realities of women's lives, women's economic insecurity becomes a self-fulfilling prophecy.

For the most part, the issues and financial systems addressed in this report have the greatest impact on the middle classes — those who have an adequate income for day-to-day survival, but who are not among the very wealthy. This includes approximately 90% of the American population.

MYTHS AND REALITIES

MYTH: Women control the wealth of the country. They outlive their husbands and live comfortably on their stocks and their inheritance.

REALITIES:

Most people in this country and particularly most women are not wealthy. Twenty-five million Americans live in poverty and the majority of these people are women and children. Women are also disadvantaged among people who are "getting by" — in 1975, average income for a woman employed full-time year-round in Minnesota was $8,209 while her male counterpart earned $14,231. It would be surprising if women occupied positions of financial superiority at the top of the economic ladder, since they are clearly in the inferior position at the bottom and middle.

Women do not own a significantly larger number of stocks than men and the dollar value of stock owned by women is less than that owned by men. A 1975 survey showed that adult women own only slightly more stock than men — 50.3% as compared with 49.7%. In 1970, the New York Stock Exchange noted that stocks owned by women amounted to only 42% of the total dollar value of such investments. Even these figures are misleading, for several reasons. Many women inherit stock when their husbands die, but do not take an active role in making investment decisions. Probably a significant amount of stock is placed in the wife's name to secure tax advantages — but again, the woman is unlikely to control these investments. The Stock Exchange indicates that male children are more likely than female children to receive gifts of stock. Most significantly, individual stock ownership is misleading as an indicator of wealth because individual ownership accounts for only 30% of the total dollar value of trading volume on the Exchange.

Real economic power lies in the hands of financial institutions and government. The remaining 70% of stock market activity represents decisions made by the boards of directors of insurance companies, banks, pension funds, foundations, profit-sharing plans, and other corporations. Women represent a very small proportion of these positions either in private corporations or in government.

Women in Minnesota private financial institutions

	Female Officers	Female Directors
Largest Minnesota-based industrial corporations	1.2%	3.2%
Largest Minnesota-based non-industrials (includes financial institutions)	1.1%	2.4%

Source: Corporate Report Fact Book, 1977

The membership of the Stock Exchange itself is 99.7% male. In Minnesota, women represent 1.1% of the officers and 2.4% of the directors of the largest financial institutions. This situation is not likely to change soon. The "feeder groups" — composed of positions which would logically lead to top corporate jobs — also contain very few women.

Banks and insurance companies are not required to have written affirmative action plans, except where they accept government contracts or have a large number of employees. Among institutions sampled in two recent surveys, 87% of Minnesota banks and 63% of Minnesota insurance companies stated that they did not have such a plan. In light of this lack of commitment, it is not surprising that women are under-represented in decision-making positions — for example, only about one in twenty-five licensed Minnesota insurance agents is female.

In addition to the private sector, state and federal governments control the economic marketplace. Governments have extensive regulatory powers over the private "money industries" and also directly manage billions of dollars in public pensions and Social Security.

In the Minnesota legislature, women are under-represented on "money committees" even in proportion to their low representation in the legislature as a whole. In the executive branch, women are even less likely to be managers in Minnesota "money agencies" than in other agencies. This pattern is similar to that found in the federal government.

Women on Minnesota Legislature money committees*, 1979 session

	Female-All Legislators	Female-Money Committee Members
Senate	4.4%	1.6%
House	11.1%	10.6%
Total	8.9%	7.5%

*Senate: Commerce, Finance, Taxes and Tax Laws;
House: Appropriations, Commerce and Economic Development, Financial Institutions and Insurance, Taxes.

Women in Minnesota money agencies*, 1978

	Female - All Agencies	Female - Money Agencies
Management	11%	8%
Supervisory	24%	24%
Professional	31%	16%

*Departments of Commerce, Economic Development, Revenue, Finance, State Board of Investment.

Source: Minnesota Department of Personnel

MYTH: Women can depend on being taken care of by their husbands. The homemaker takes care of the family so that her husband can go out and earn a living to support them – an equal economic partnership. If anything happens to him, his benefit programs – insurance, pension, Social Security, etc. – will be enough for her and their children to live on.

REALITIES:

The homemaker is defined as a "dependent" by most economic systems because she does not have her own income — and dependency means vulnerability. The homemaker's work clearly has an economic value, which has been calculated differently by a number of groups. Women who assume this role, however, often suffer financial penalties. Dependent benefits are considered unearned and the homemaker rarely has any "right" to them. Such benefits are subject to many restrictions or even revocation. Her eligibility is subject to her husband's status and/or the status of their relationship. She has no guarantee of economic security and no control over the financial decisions which affect her. In many cases she will be ineligible for any benefits based on her husband's employment, regardless of the number of years she contributed to the "partnership" or the quality of care she provided to the family.

Very few Minnesota women will be life-long, full-time homemakers. Married women are almost as likely to be in the labor force as are women who are single, widowed, or divorced: labor force participation rates in 1977 were 52% for married women with husbands present, compared with 57% for women who were single, widowed, or divorced. Yet financial institutions persist in seeing the full-time homemaker as the norm.

Among women who are currently homemakers, many will undergo changes in family or work patterns in the course of their lifetimes, by choice or by chance. They may be divorced — one in three marriages now ends in divorce — or widowed — women are likely to outlive men by an average of eight years. Their husbands may become unable to work, or they may find that two incomes are necessary for family survival. Sooner or later, most homemakers are also employed women.

MYTH: Women can take care of themselves, now that they have achieved equality. Thanks to affirmative action programs, many of them have jobs with good salaries which make it possible for them to have real financial independence.

REALITIES:

Women's employment patterns are very different from those of men; and women's work is characterized by low pay and little opportunity for advancement. Only one of five Minnesota women have full-time year-round employment. Seasonal workers, whether part-time or full-time, comprise another 29.7%, and part-time year-round workers account for 10.2% of all Minnesota women. Few women have life-long, year-round labor force attachment.

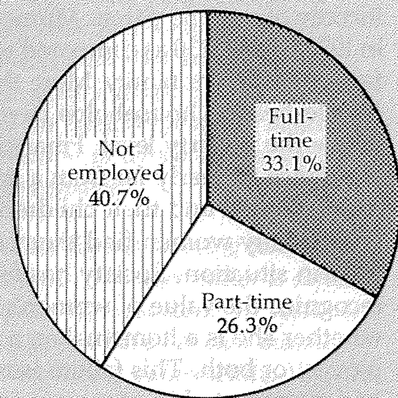
Despite their increased numbers in the work force, women continue to be concentrated in jobs which can be called "women's work" because they are performed almost exclusively by women. Women who work full-time year-round make on the average less than sixty cents for every dollar earned by men. A female college graduate earns on the average about the same as a man with only an eighth grade education.

Discontinuous work patterns and extensive job segregation by sex both result in women's earning less and having fewer opportunities for access to fringe benefits. Virtually all benefit programs related to work status are designed to reward most the employee who most closely approximates a male employment pattern: full-time year-round work; high wages; and a relatively uninterrupted work life.

Many employed women are married and/or support families, in spite of numerous financial obstacles. In 1974, 59% of husband-wife families filing Minnesota income tax returns were two-earner families. Wives do not work for "pin money;" nationally 44% of working wives contribute 30% or more to family income.

Such women make mandatory contributions to Social Security, pension plans, and the income tax system — contributions which may well be duplicated by their husbands and which may provide the woman with absolutely no benefit. Ironically, these systems are in reality the true dependents of women, for they depend on the margin created by women's uncollected deposits.

Few women work full-time year-round



Work experience in 1975, Minnesota women age 14+

EMPLOYED 59.4%		NOT EMPLOYED 40.7%	
Full-time, 50-52 wks.	19.5%	Keeping house	22.1%
Full-time, under 50 wks.	13.6%	In school	6.7%
Part-time, 50-52 wks.	10.2%	Ill or disabled	4.0%
Part-time, under 50 wks.	16.1%	Retired & other	7.9%

Source: Bureau of the Census

In 88,000 Minnesota households, the family is headed by a woman. The average income of a single parent Minnesota family in 1977 was $8,230 as compared with $17,220 for a two-parent family. More than half of female-headed households have incomes below the poverty level. Financial independence is clearly far from a reality for these women and their children.

Too many women find themselves in a no-win situation. Society has failed to recognize the value of women's work, whether she is a homemaker, a paid employee, or both. This failure is reflected and perpetuated in economic systems.

MYTH: Biological differences between women and men necessarily affect every aspect of women's lives. Because women are able to bear children and because women on the average tend to live longer than men, employers and financial institutions must treat women differently from men.

REALITIES:

Childbearing patterns have changed dramatically, and are less likely than ever before to affect women's decisions about employment. The fact that women are able to bear children does not mean that all women will have children. Those who do are likely to have fewer children, to have them later in life, and to have many more years of life after raising children than in the first half of this century.

Women with small children are in fact more likely than others to be employed. The lack of adequate and affordable child care services and the absence of flexible working hours make it difficult for many mothers to work full-time. However, there is no evidence to suggest that women with children are less reliable as employees than any other group.

Pregnancy is subject to a number of mistaken assumptions which jeopardize women's economic security. It is widely believed that women cannot or should not work after a certain stage of pregnancy. In reality, most women are physically unable to work for only a brief period of pregnancy — the average hospital stay is four days.

The likelihood of pregnancy is also misunderstood. Before passage of the Equal Credit Opportunity Act, creditors often denied loans to women because "she can get pregnant at any time," assuming that this meant leaving work and inability to repay debts. Insurance companies, on the other hand, exclude maternity coverage from many policies because pregnancy is "voluntary and budgetable." Ironically, many of the same companies pay expenses for all prescription drugs except birth control pills. In reality, pregnancy is neither completely unpredictable nor entirely planned.

Women as a group tend to live longer than men as a group, and older women are particularly vulnerable to poverty.

Mortality tables now show that women are likely to outlive men by about eight years on the average. More than 265,000 Minnesota women are age 65 or older. Almost half of these women are widows, and almost half live in poverty. This situation reflects women's lack of economic security, as opposed to the ability to "get by" — it is in the retirement years that the cumulative result of unequal employment conditions and "invisible money" barriers becomes most apparent.

Many older women have been financial dependents throughout their adult lives. The older woman today is unlikely to have spent many years in the labor market. She is not likely to have training or experience in money management. Both she and her husband may have assumed that his pension, life insurance, and Social Security would provide her with an adequate income in the event of his death.

But all of these assumptions may prove false.

Women who have worked outside the home are also unlikely to have adequate retirement incomes. Since women earn less than men, benefits related to salary level will be lower. Many systems also base benefits on number of years of service — any gaps in employment related to homemaking or child-rearing reduce benefits even further. In addition, women represent a large proportion of the workforce in small firms, in religious, charitable, and non-profit corporations, in domestic work, and in non-unionized work — all of which are less likely than other employment to have retirement programs.

Economic systems make assumptions about longevity which have an adverse effect on women's economic security. Most life insurance companies assume a woman will live only three years longer than a man, and charge her slightly less in premiums for that reason. Many pension plans assume that a woman will live five years longer than a man, and reduce her benefits accordingly. This practice penalizes those women who do not fit the statistical prediction, who die before men in the same age group. Even if the woman matches the statistical average, she has less money to live on from year to year than her male counterpart who had the same salary and years of service.

SUMMARY

- *Women do not control the wealth of the country. They own only a slightly larger number of stocks than men and the dollar value of their stock is lower. Real economic power lies in the hands of financial institutions and government – in which women are significantly under-employed.*

- *Women cannot depend on being taken care of by their husbands. The homemaker is defined as a "dependent" by most economic systems, because she does not have her own income – and dependency means vulnerability. Very few Minnesota women will be full-time life-long homemakers.*

- *Women have not achieved equality in the labor market. Their employment patterns are different from those of most men, and these are characterized by low pay and lack of access to fringe benefit programs. Many employed women are married and/or support families in spite of numerous financial disincentives.*

- *Pregnancy and childbirth are less likely than ever to affect women's employment decisions. Employers and financial institutions make assumptions about women's reproductive capacity which jeopardize the economic security of women.*

- *Women as a group tend to live longer than men as a group, and older women are particularly vulnerable to poverty.*

THE SYSTEMS

The issues and problems addressed in a general way in the first part of this report appear in each major system reviewed here: insurance, Social Security, pensions, investments, credit, and taxes. It should be noted that this is not an all-inclusive list of economic systems and institutions, and that this report is not intended to document all the problems of these systems. Taxes and Social Security, for example, are based on numerous complex assumptions which are currently being questioned, assumptions which may be unfair to many groups of people in addition to women.

Participation in all of these systems is contingent upon access to a personal income. For this reason, equal employment opportunity is the most urgent priority in ensuring women's economic security. But if this goal is narrowly defined, women will still be at a disadvantage in "invisible money" systems.

INSURANCE

Many economic opportunities are actually forms of insurance in the broadest sense of the term. Social Security and pensions are both methods of insuring or supplementing retirement income — and both of these sytems contain elements of protecting the individual or family against contingencies such as death or disability. For the purposes of this section, however, "insurance" will refer to policies sold to groups or individuals by private insurance companies.

Unlike Social Security and pensions, regulation of the insurance industry is the province of state governments — in Minnesota, the Insurance Division of the Department of Commerce.

Minnesota insurance companies collected more than $2 billion in premiums paid for all types of policies in 1976. Most of this money is channeled into various kinds of investments before it is paid out in benefits or losses.

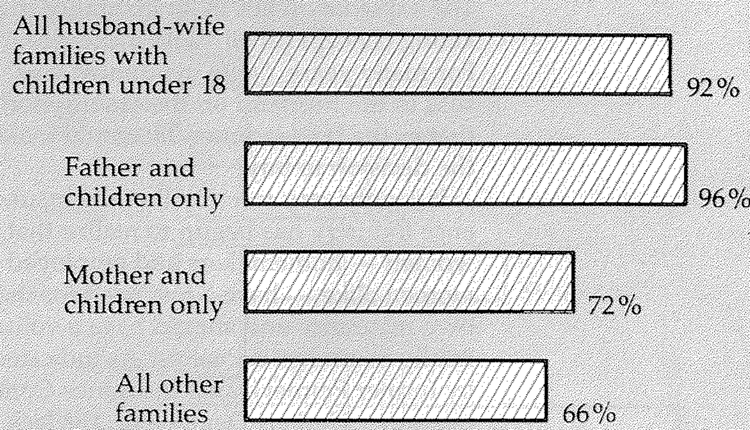
Women are less likely than men to be protected by insurance. Women, like men, require protection against financial hardships. Adequate insurance is not a luxury for the average individual or family.

National health insurance programs have been considered for some time. Although the issue is controversial, there is general agreement that many Americans — 26 million in 1976, according to the U.S. Department of Health, Education, and Welfare — have no protection through either private health insurance or public programs such as Medicare and Medicaid. Among those most vulnerable are "people who work for an employer with a small low-wage work force" and the unemployed. Women are more likely than men to be in these situations.

Data collected by the American Council of Life Insurance indicates that women are less likely than men to have life insurance coverage. When such coverage exists, the amount is likely to be much smaller than policies held by most men. Women who are single parents are less likely to have life insurance than men who are single parents or than two-parent households.

Insurance coverage less for women

Percent of families, one member with life insurance, 1969



Source: American Council of Life Insurance

Women's lack of insurance protection is partly due to insurance marketing practices. Women's lack of economic security is probably the major factor in the inadequacy of women's insurance: the individual who is "getting by" simply cannot afford to protect her financial future. However, the insurance industry has contributed to the situation by being slow to realize the female market potential. It is only very recently that active marketing campaigns have been undertaken to attract women.

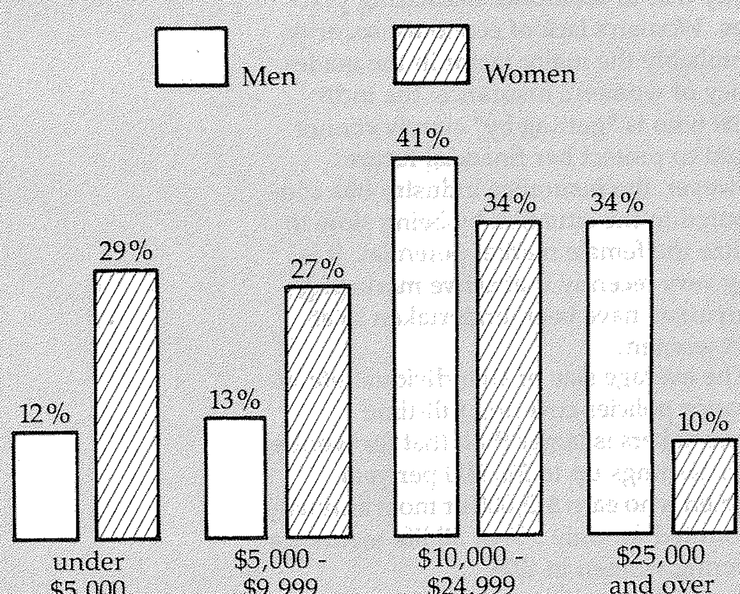
The average size of all individual life insurance policies covering full-time homemakers is larger than that for women with earnings up to $10,000 per year. Women who earn $15,000 or more annually accounted for only 9% of all life insurance covering women in 1976.

...women have a real need for their own insurance and should have a voice in family insurance decisions.

Homemakers have relatively good life insurance protection, a fact which is surprising for two reasons: most financial systems ignore the economic importance of the homemaker, and homemakers have very few opportunities in the areas of medical and disability income insurance. The explanation lies in an insurance marketing concept called "wife insurance." For many years, "wife insurance" was sold to the husband on the assumption that as the breadwinner, he would make the decision to buy.

It is only very recently that the insurance industry has begun to realize that women — homemakers and employed women alike — have a real need for their own insurance and should have a voice in family insurance decisions. As indicated by former Pennsylvania Insurance Commissioner Herbert Denenberg, the lack of women as insurance employees, especially in the sales area, has probably contributed to this lack of understanding about women's needs and the potential of marketing insurance to women.

Women purchase smaller amounts of life insurance



Life Insurance policy size, by purchaser, 1976

Source: American Council of Life Insurance

A study of Minnesota insurance companies shows some improvement over the last five years in the industry's treatment of women. In May of 1978, the Council on the Economic Status of Women conducted a survey of 82 insurance companies operating in Minnesota. A total of 54 companies, of different sizes and with four different kinds of licenses, responded. In comparing the results of this study to a similar survey conducted in 1973 by the Pennsylvania Insurance Department, the following improvements were found:

- Disability income policies sold now are less likely to restrict certain options for women. In Pennsylvania in 1973, noncancellable and guaranteed renewable options, and coverage beyond age 55, were available to men but not to women. Only one of sixteen companies in the 1978 survey restricted such coverage for women.
- Guaranteed insurability riders on life insurance policies are now equally available to men and women among the 24 responding companies who provide this option. In 1973, women often could not buy this form of protection.
- Only one of 26 life insurance companies now has different criteria for insurability for women and men. The previous study showed that companies commonly refused to sell policies to women unless they were self-supporting, worked outside the home, and/or worked in a "responsible position."
- Single persons and two-earner couples are now able to purchase homeowners or renters insurance without increased cost or special restrictions. In 1972, they were often denied coverage, presumably because the house would be unoccupied during the day.
- Among insurance company employees, women have reached greater representation as directors and managers. Five years ago, women represented only 2.5% and 8.5% of these categories.

Although some improvements have been made in insurance company employment practices, women still represent a relatively small proportion of the highly-paid positions and a large proportion of the lower-paid positions. Among companies responding to the questionnaire cited above, 63% did not have a written affirmative action plan; 14% said they were in the process of developing such a plan. Based on this sample it appears that almost half of the companies selling insurance in Minnesota have made no formal commitment to equal employment opportunity in their personnel policies. Of particular concern is the low representation of women in the insurance sales force. Although the survey indicates that 11% of sales workers are women, this figure is probably misleading. Women represent only four percent of licensed agents according to Insurance Division records. Female "sales workers" may be essentially office workers who do primarily telephone or mailing work. This is significant because the composition of the insurance sales force has a high correlation with sales made to women.

Model regulations prohibiting differential treatment of men and women in insurance have not been adopted in Minnesota. In 1976, the National Association of Insurance Commissioners adopted a "Model Regulation" prohibiting the denial of "benefits or coverage on the basis of sex or marital status in the terms and conditions of insurance contracts and in the underwriting criteria of insurance carriers." The model is essentially a suggested way of dealing with availability problems only, not with differential prices. The model has been adopted by at least 16 states, but not in Minnesota.

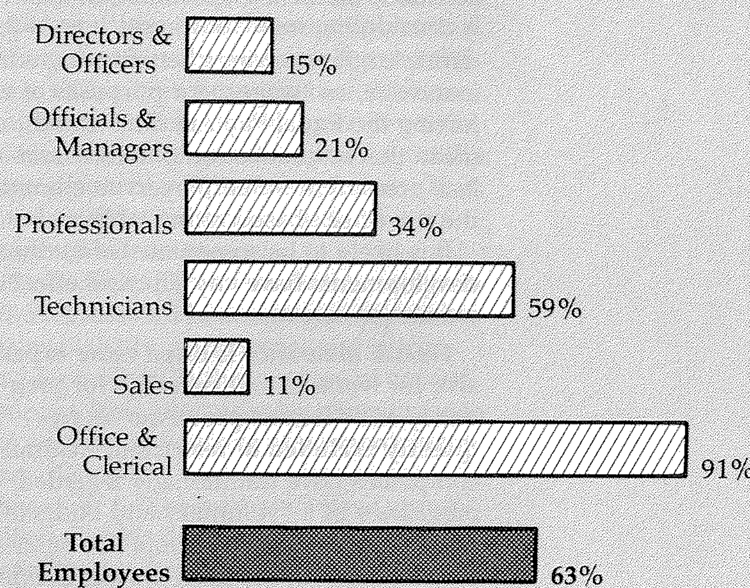
Chapter 72 of the Minnesota Statutes prohibits "unfair trade practices" in insurance, and specifically defines race of applicant as an unfair category to use in granting insurance or setting premium rates. The same prohibition, however, does not apply to distinctions based on sex or marital status of the applicant under current law.

In 1976, the Minnesota Insurance Division proposed regulations which would have been very similar to the Model Regulation, but it was determined that such changes were more appropriately made through the legislative process. In 1978, a bill was introduced in the Minnesota legislature which would have had the same effect — but this bill did not pass. It will be re-introduced in the 1979 session.

Several developments at the federal level may have a significant impact on Minnesota insurance practices. The National Association of Insurance Commissioners was considering the adoption of a

Women are under-represented as officers, managers, and agents of insurance companies

Women as percent of occupational group



Source: Council on the Economic Status of Women

The Minnesota Human Rights Act specifically defines discrimination against pregnant workers as sex discrimination.

second model when this report was being written. The new model would extend the prohibitions on differential availability based on sex to the practice of charging differential rates to men and women based solely on sex or marital status. In addition, the U.S. Department of Labor is considering regulations which would define employee fringe benefits, including insurance, as "wages" for purposes of enforcing the Equal Pay Act. This could mean that insurance companies would face pressure from employers to eliminate the use of sex-based rating tables.

It is likely to be some time before these developments have any practical effect on women as consumers of insurance.

Health insurance is often more expensive for women, and coverage for pregnancy and "female problems" is frequently excluded or restricted. Insurance companies have traditionally regarded pregnancy as a "voluntary and budgetable" condition, which should not be insured against in the same way as accident or illness. Although medical problems related to the female reproductive system do not fit this rationale, such conditions are also considered uninsurable in many cases.

For women who have access to group medical insurance, this situation is improving. The Minnesota Human Rights Act was amended in 1977 to specifically define discrimination against pregnant workers as sex discrimination. A similar law was passed by the U.S. Congress in October 1978 and will go into effect in April 1979. The state law provides that if the employer has a policy awarding health and/or disability benefits to employees, the same benefits must be extended to pregnant workers. For example, if an employee who has a heart attack receives hospitalization benefits and a paid leave of absence, this provision must be extended to pregnant employees. Of course, the law does not require companies to provide such benefits at all, only to extend them where they do exist.

The Minnesota Insurance Division and the Department of Human Rights entered into a cooperative agreement for the purpose of enforcing this law in May 1978. The Human Rights Department plans to question insurance companies about their compliance and to investigate possible sex discrimination in general. Possible violations will be referred to the Insurance Division which has the power to refuse renewal of an insurance company's license to operate. In August, the Minnesota Insurance Federation and fourteen insurance companies filed a suit in district court objecting to this agreement on the basis that the state Department of Human Rights has no authority over insurance companies, stating that "the agreement unnecessarily involves two agencies in the work of one, and simply adds more red tape to insurance licensing." The suit was still pending when this report was written.

The survey conducted by the Council showed that:

- Although the majority of group medical policies provide some form of maternity coverage, many special restrictions are used. Two-thirds of surveyed companies said that less than half of their policies treated maternity the same as any illness. One-fourth of respondents said that most of their policies cover "complications only." Half said that most policies have a different deductible amount for maternity; 36% said most policies had a different waiting period for maternity than for other conditions.
- Thirty-six percent of responding companies had flat maximum benefits for group maternity coverage of $500 or $700, when other conditions were reimbursed

on an actual cost basis. A Twin Cities survey indicates that $1,500 is not an unusual amount for doctor and hospital maternity costs.

• This situation is paralleled in individual medical coverage. Fifty-seven percent of companies selling individual policies impose special waiting periods for maternity coverage. In addition, maternity coverage is sometimes unavailable to single women or single parents unless they enroll in higher-cost "family" coverage where premiums are based on estimated costs for two adults and two children. Such coverage is unavailable in one company of eight. None of the companies surveyed would pay expenses for birth control pills, even when other prescription drugs were covered.

• More than one-third of insurance companies charge higher rates for group policies which will cover ectopic pregnancy, Caesarian delivery, tubal ligation, or elective abortion. In non-group policies, these conditions are often not covered at any price; they may be less available to individuals than to families, and sterilization procedures may be excluded unless a maternity policy is purchased.

• In non-group policies, half of the responding companies quoted higher premium rates for women, even when no maternity-related conditions were covered. The female rate was about 30% higher than the male rate. In group policies, age and sex of the employee population are almost universally used in setting the price for a new policy. A company with a high proportion of female employees is likely to pay more in premiums than a comparable company with a large proportion of male employees. This could serve as a disincentive for the employer to hire women.

Since about 85% of medical coverage in Minnesota is sold through group policies, the availability, restrictions, and higher cost for women in this area are of special concern. This also probably contributes to the general inadequacy of women's insurance. The many women who are not employed, or whose husbands have group policies which do not provide dependent benefits, or who work for companies which do not offer medical insurance, will have a difficult time in protecting themselves.

It should be noted that many decisions about group medical insurance are made

"You will find hospital expense policies which exclude only the following: injuries and expenses resulting from war, riot, military service, illegal occupations, attempts to commit a felony, and pregnancy. ...The insurance industry, at least a segment of it, has managed to turn our proverbial reverence for god, motherhood and country on its head, leaving only god and country intact, and visiting the most foolish and heartless discrimination on motherhood. And you will find no special exclusion for any of the ailments to which the male reproductive system is heir."

– Dr. Herbert Denenberg, former Pennsylvania Insurance Commissioner, testimony to U.S. Commission on Civil Rights, April 1978

Premium rates for disability policies which are basically identical...are much higher for women than for men.

by the employer. For example, the employer may "self-insure" for maternity benefits rather than obtaining such coverage through an insurance company. Therefore, the process of change will necessarily involve regulatory bodies, private insurance companies, and employers in general.

Many women do not have access to disability income insurance; those who are able to buy such policies face numerous restrictions and high costs not imposed on men. This type of insurance provides benefits to persons unable to engage in normal work activities due to disabling illness or injury. Unlike medical insurance, disability insurance replaces lost income. Worker's Compensation is a form of group insurance coverage for income replacement in the event of disability. But Worker's Compensation covers only disabilities incurred on the job and in general the representation of women is low in industries with a large number of claims. Only 25.8% of claims filed in 1977 were from women, according to the Minnesota Department of Labor and Industry.

The survey completed by the Council on the Economic Status of Women referred only to non-group disability policies. Responding companies indicated that:

- Thirteen percent would not use the same occupational classes for women as for men. This could mean that a woman could not purchase disability insurance because her occupation was not listed in the underwriting categories. Several companies who said they did use the same occupational classes made distinctions between occupations which seem very similar to distinctions based on sex. For example, two companies consider barbers fairly good risks, beauty parlor proprietors a slightly higher risk, and beauticians unacceptable as risks.
- Almost one-third of the responding companies had different maximum amounts of insurance that could be purchased by men and women; usually women were limited to a smaller amount.
- Disability insurance covering homemakers is unavailable from 80% of the companies. Those that do have this kind of policy restrict benefits to a maximum of $200 per month, which would be $2,400 per year. In light of the fact that the American Council of Life Insurance recommends "wife insurance" in the amount of $17,000 per year to protect the family against the homemaker's death, this seems to be very inadequate.
- The many women who work part-time will have great difficulty in obtaining disability insurance to protect their earnings. Sixty-five percent of companies will not sell such coverage to anyone working less than 40 hours per week, and 71% of the companies which will cover part-time workers require a minimum of 30 hours per week.
- Eighty percent of responding companies exclude from coverage all disabilities related to pregnancy, childbirth, or miscarriage.
- Premium rates for policies which are basically identical, but exclude all pregnancy-related disabilities, are much higher for women than for men. On the average, the woman pays $86 more per year; women's rates range from 137% to 220% of those charged to men.

Companies have justified the differences in price and coverage for women in disability policies in a number of ways. A study conducted by the New York Insurance Department in 1976 showed that women who had disability insurance were almost twice as likely as men to be disabled and file claims. However, this study overlooked a self-selection variable which may have been significant: those women who were willing to pay considerably more than men for lesser coverage may have known or suspected they would need this kind of insurance.

If sex-based distinctions must be used by the insurance industry, women should have a proportionately larger advantage in life insurance.

Studies conducted by the Social Security Administration and the Department of Health, Education and Welfare show that geographic region, family income, and race are probably just as accurate, or more accurate, predictors of disability than sex. The Minnesota State Retirement System's experience is that women are *less* likely than men to be totally disabled in almost every age group. A study completed by the Metropolitan Life Insurance Company indicates that women may miss work more often than men when reproductive system conditions are included, but that men's disabilities are of significantly longer duration.

Average number of disability separations per 10,000 employees, Minnesota State Retirement System, 1977

	Male	Female
Age 30-39	2.0	0.6
Age 40-49	3.0	3.3
Age 50-59	17.2	12.9
Age 60-65	29.3	22.5
Total	5.2	3.9

Source: Minnesota State Retirement System

Whatever the case, it seems that available information about disability rates between the sexes is not clear-cut and is a highly questionable basis for setting premiums.

In spite of the fact that women are likely to live longer than men, and are therefore good risks for life insurance, women are at a disadvantage in this area as well. Current mortality data show that women live about eight years longer than men on the average. But until the last legislative session, Minnesota law prohibited companies from giving women more than a three-year "setback" in life insurance rates. Under this setback, the woman is charged a lesser premium, equivalent to the rate charged for a man three years younger. The survey showed that 21% of companies either charge the same rates for males and females or give the woman even less than a three-year setback.

If sex-based distinctions must be used by the insurance industry, women should have a proportionately larger advantage in life insurance. But in spite of the limited setback advantage, the American Council of Life Insurance states that the average woman covered by life insurance pays $17.00 per $1,000 of coverage per year, as compared to $14.70 for the average male insured in 1976. One explanation is that premiums are related to type and size of policy. Since women have smaller policies than men, the cost of processing their applications and claims is more expensive. The average size of all life insurance policies covering women is $11,910 as compared to $36,010 for men.

In addition, the Council questionnaire showed that many companies' application forms contain questions applicable only to women. Thirty-one percent require information about husband's insurance coverage; 70% inquire about gynecological history; 81% inquire about the possibility of current pregnancy; and 12% request length of marriage. Forty-two percent have at least one question applicable to men only — examples given were prostate history and wife's insurance.

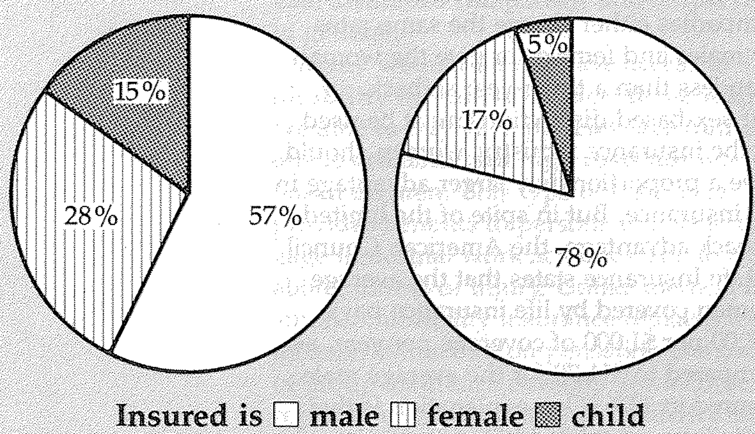
A "waiver of premium" option is not available to men and women on the same basis in seven percent of responding companies. In addition, one company does not make this option available to homemakers.

Although many employers provide some life insurance as part of a fringe benefit package, this type of protection is

One-fourth of companies surveyed indicated that auto insurance rates may increase upon separation or divorce.

Women have less life insurance coverage

Life insurance policies purchased in 1976 by number of policies...and amount of coverage



Source: American Council of Life Insurance

usually sold on an individual basis. There are many kinds of life insurance, which can serve many other functions besides "death protection" — a policy may act as a mechanism for obtaining credit, for providing a retirement income, or for investing. Some policies are similar to an individual pension plan, in which case the two-sex mortality tables are also used. Because of the many advantages for the individual who has good life insurance, this area is of great significance to women.

Marital status and living situation may be key factors in women's automobile and homeowners/renters insurance. Insurance statistics show that the group most likely to be involved in car accidents is composed of young men, who are accordingly charged higher rates. The young man who drives carefully and maintains a good driving record — like the woman who does not become disabled or who does not outlive her male co-worker — must pay the higher rate assigned to his gender group, based on two-sex rating tables.

Many women are penalized in this area not directly because of their sex, but because of insurance judgments about their marital status or living situation. These judgments are based on a "moral hazard" assumption which presumes that people living in what the industry considers non-traditional lifestyles are irresponsible or untrustworthy. It is quite possible that women are more vulnerable to "moral hazard" judgments than men, in view of societal stereotypes about "divorcees," for example, as opposed to attitudes toward divorced men.

In addition, it is common for a car to be insured in the husband's name. When divorce occurs, the woman may be treated as "new business" — and charged higher rates — when she buys her own insurance from the same company. The Minnesota Insurance Division has ruled that this is an unfair trade practice, and legitimate cause for consumer complaint. But women may not realize that this is a factor in their higher rate and may not know that this practice is illegal.

Responses to the automobile section of the Council questionnaire showed that:

- All responding companies requested sex and/or marital status on application forms.
- Fifty-three percent of the companies will automatically drop a woman from a policy in her husband's name upon divorce; about half of these will, however, notify her of this change. And all responding companies indicated that she would be eligible for continued coverage in her own name.
- One-fourth of companies surveyed indicated that rates may increase upon separation or divorce, but said that this would be equally true of male and female applicants.

It should be noted that insurance companies have not presented any data which would indicate that divorced people of either sex actually have a higher incidence of expenses or claims in car or other property insurance. It is likely that many of the decisions about insurability and rates are left to the individual agent who is free to make these decisions on a highly subjective basis.

SOCIAL SECURITY

> *"Insurance is a product which is sold, not bought. Without the sales effort, the need for insurance is not likely to be perceived or satisfied. This is especially true of...life, disability, health, annuities and pensions. A basic part of that product is not only the policy, but the sales effort, advice and service that goes with it."*
>
> *– Denenberg, testimony in April 1978*

SUMMARY

- *Women are less likely than men to be protected by insurance.*
- *Women's lack of insurance protection is partly due to insurance marketing practices.*
- *A study of Minnesota insurance companies shows some improvement over the past five years in the industry's treatment of women.*
- *Although some improvements have been made in insurance company employment practices, women still represent a relatively small proportion of highly-paid positions and a large proportion of lower-paid positions.*
- *Model regulations prohibiting differential treatment of men and women in insurance have not been adopted in Minnesota.*
- *Health insurance is often more expensive for women and coverage for pregnancy and "female problems" is frequently excluded or restricted.*
- *Many women do not have access to disability insurance; those who are able to buy such policies face numerous restrictions and high costs not imposed on men.*
- *In spite of the fact that women are likely to live longer than men, and are therefore good risks for life insurance, women pay a higher price for this kind of insurance also.*
- *Marital status and living situation may be key factors in women's automobile and homeowners/renters insurance.*

More than 590,000 Minnesotans claimed a total of more than $1.4 billion in Social Security benefits in 1977. Of these individuals, 426,000 are age 65 and over — 92.9% of all Minnesota residents in this age group. In fact, only 15 states have a higher proportion of senior citizens collecting Social Security.

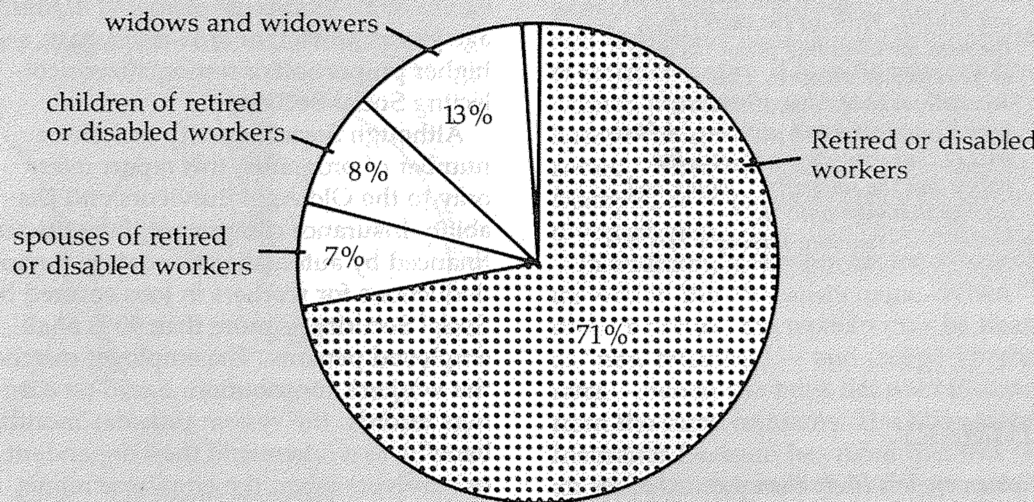
Although Social Security includes a number of programs, this report refers only to the Old Age, Survivors and Disability Insurance component. Benefits are financed by automatic, mandatory payroll deductions for workers in jobs covered by Social Security — more than 90% of all employed persons. The employer matches the worker's contribution. Based on earnings records, the system provides monthly benefits to workers and their dependents or survivors when the employee retires, dies, or becomes disabled.

Considerable attention has been given to the problems of financing Social Security. Recently, concern about the treatment of women, single persons, and two-earner families has grown. Many major revisions of the system have been proposed in an effort to alleviate the inequities confronting these groups, but only a few patchwork changes have actually been made. Since the system is extremely complex, change is likely to be slow.

The Social Security system is more accessible to women than any other form of financial protection. Most people are eligible for some benefit at age 65, whether they are classified as "workers," "dependents," or "survivors." Nationally, 90.4% of all persons age 65 and over currently receive a Social Security check.

Unlike other systems, Social Security grants at least partial recognition to the homemaker. In 1939, four years after passage of the original Social Security Act, dependent benefits were provided for homemakers based on their husbands' work records — a check payable to the homemaker herself equal to 50% of her husband's benefit. And in 1965, the law

Social Security benefits are greatest for workers, not dependents



Social Security Benefit Amounts, Minnesota 1977

Source: Social Security Administration

was further amended so that divorced women could also qualify for dependent benefits under certain circumstances.

But Social Security, like other financial programs, does not adequately address the needs of women. The system was meant to provide the security of a *minimum income floor* to all families when they lose access to earned income. Benefit levels are low because Social Security was not designed to replace other forms of retirement income. The average retired Minnesota worker receives benefits of only $233 per month, or $2,796 per year. This places many recipients only slightly above the poverty level.

Those who assume Social Security will be enough to provide them with a comfortable retirement are likely to face impoverishment. Yet within the context of these low benefit levels, women receive even less than men — and have fewer guarantees of protection, whether they were homemakers, employed workers, or both prior to retirement.

Some attempts to address the problems outlined below have been made, notably the amendments to the law adopted in 1977. However, these changes are of a "patchwork" nature. The system continues to provide the greatest rewards to those who fit the lifestyle of the average man: full-time, year-round, life-long paid employment.

The Social Security definition of the homemaker as her husband's dependent makes her the victim of arbitrary restrictions. Since she is not considered his economic partner, all benefits based on his income are treated as a gift, not an earned right. Although she gets her own check, she has fewer guarantees of protection than he does and her work is not directly related to her benefit. Benefits based on the husband's earnings record do not adequately provide for women in many situations.

If the homemaker should become disabled or die, her family receives no benefits, even though the loss of her services

The Social Security system provides the greatest rewards to those who fit the lifestyle of the average man.

may create a significant financial burden. The Social Security Administration itself estimates her monetary value at $7,500 a year, an amount considered conservative by many experts. Her eligibility for spouse's benefits is not related to her own age or retirement status, but to her husband's.

The many homemakers who are widowed or divorced are not adequately protected under Social Security. Such women are subject to numerous restrictions in becoming eligible for benefits and in the amount of benefits even if they have contributed to the raising of a family for many years.

Until December of 1977, divorced homemakers were ineligible for benefits unless the marriage lasted at least 20 years. This duration-of-marriage requirement has now been reduced to 10 years. Although this change will enable more women to collect benefits, the arbitrary nature of eligibility is preserved. Since two-thirds of marriages ending in divorce last less than 10 years, most divorced women will continue to receive nothing from Social Security under the dependent-benefit provision.

If the divorced woman is eligible, she receives only one-third of the previous family income. Couple X, for example, received a total benefit of $300 monthly. But after divorce, the husband/retired worker continues to receive "his" $200, and the wife/dependent continues to receive her 50% of that amount, or $100. In 1976, the average divorced wife received $117 per month — and all beneficiaries in this category were married a minimum of 20 years.

Major Features of the Fraser/Keys Proposal, "Equity in Social Security for Individuals and Families" (introduced in Congress February 8, 1977)

Overall intent of the proposed amendment is to "assure that the maximum number of adults will build and maintain their own Social Security records throughout their working lives — records on which they and their dependents may collect benefits." It would enable the individual to maintain such a record before, during, and after marriage. There would be no interruption in the development of the earnings record during years spent as a homemaker.

Earnings splitting means that married couples who file joint income tax returns could decide on one of two methods of acquiring earnings credits:

Plan A. Each spouse is credited with 50% of the couple's total earnings. This would be best for a two-earner couple where husband and wife earn close to the same salary.

Plan B. Each spouse is credited with 75% of the total earnings of the more highly-paid worker. This would be best for couples in which only one spouse has earnings covered by Social Security, or where one spouse earns much more than the other.

In addition, the *surviving spouse benefit* for widows and widowers would be equal to two-thirds of the total benefit for the couple. Such benefits could be claimed at age 50 — present law makes such benefits unavailable until age 60.

Results of this proposal, if enacted, would include:

— Homemakers would acquire retirement protection for themselves, based on their own records instead of their husbands' age and retirement status. They would also accumulate protection for their families in the event of their disability or death. Benefits for "dependent" spouses could eventually be eliminated.

— Women who transfer betwen homemaking and paid employment would have uninterrupted, individual earnings records. Penalties for intermittent employment would be removed.

— Divorced women could receive benefits based on a share of family earnings while married, and on individual earnings before marriage and after divorce. The duration-of-marriage requirement could be eliminated.

— Husbands and widowers would not have to undergo dependency tests, since they also would have established an independent record on which to base their benefits.

The Department of Health, Education and Welfare is currently studying this and other proposals. Recommendations will be made to Congress in January, 1979.

For most widows and divorced women, remarrriage will mean the loss of Social Security benefits.

Homemakers who become widows before age 60 face an eligibility gap. They are guaranteed only a lump sum death benefit of $255. If the widow is over 50 and disabled, she may receive benefits. But all other widows under 60 receive benefits only if they are caring for a child under 18, or an older disabled child. As soon as the youngest child becomes 18, all such benefits are terminated.

The widow may wait many years before being entitled to collect any benefit for herself. The average widow who does receive benefits collects $222 monthly, or $2,664 per year. Her chances of finding employment and her access to other resources are extremely limited.

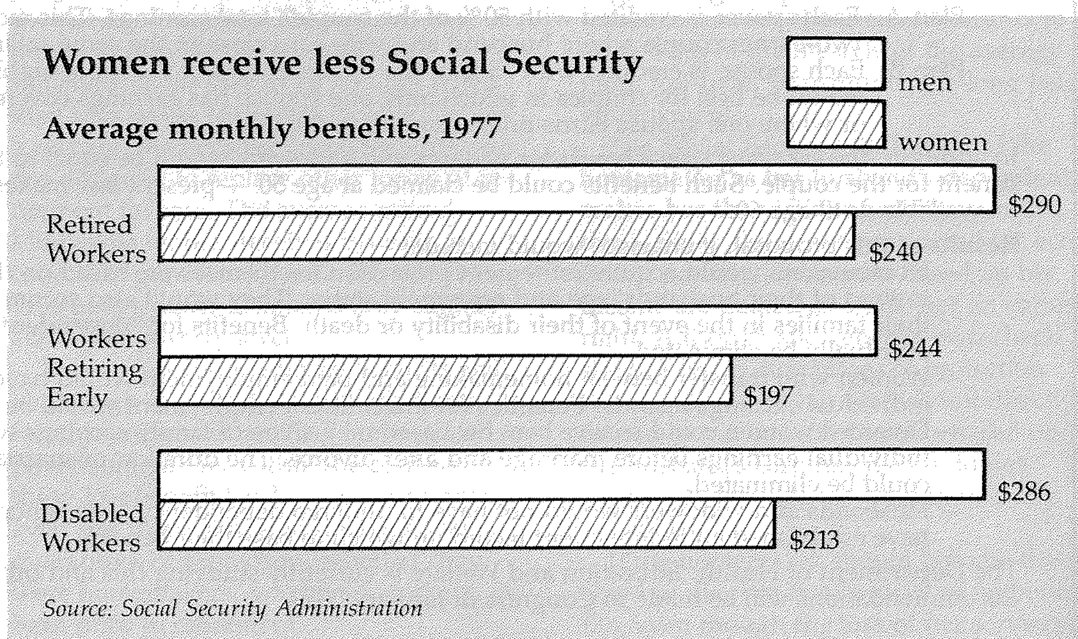
Benefit restrictions are placed on remarriage for both widows and divorced women. A special exception was provided in 1977 for over-60 widows, but for all others, remarriage will mean the loss of Social Security benefits. Divorced women who are not widows lose entitlement upon remarriage regardless of age. Homemakers' rights to benefits based upon their first husbands' earnings do not exist.

Women who have been employed outside the home are likely to receive lower benefits than men. The average retired female worker receives $50 per month less than her male counterpart. Among disabled workers and workers who retire early, women receive even less in proportion to men. This difference results from several provisions of the benefit formula which have a negative impact on women.

Eligibility is determined based on number of years worked in covered employment. Benefit amount is calculated by averaging the worker's annual earnings over a number of years. Five years of "low or no earnings" are subtracted. This formula has two significant disadvantages for women.

First, the "earnings gap" between males and females covered by Social Security parallels that between all employed men and women. When part-time and seasonal workers are included, women have even lower earnings in proportion to men.

Secondly, when these low earnings are averaged over a period of years, the woman is likely to be penalized for years outside the labor force. If she stays home to raise a family for ten years, five years will be disregarded — but the additional five years will be averaged into the formula as "no earnings," thus reducing the benefit which is already smaller because of her low salary while employed.



Women receive less Social Security

Average monthly benefits, 1977

Source: Social Security Administration

Husbands and children of female employees are likely to receive smaller benefits than wives and children of male workers.

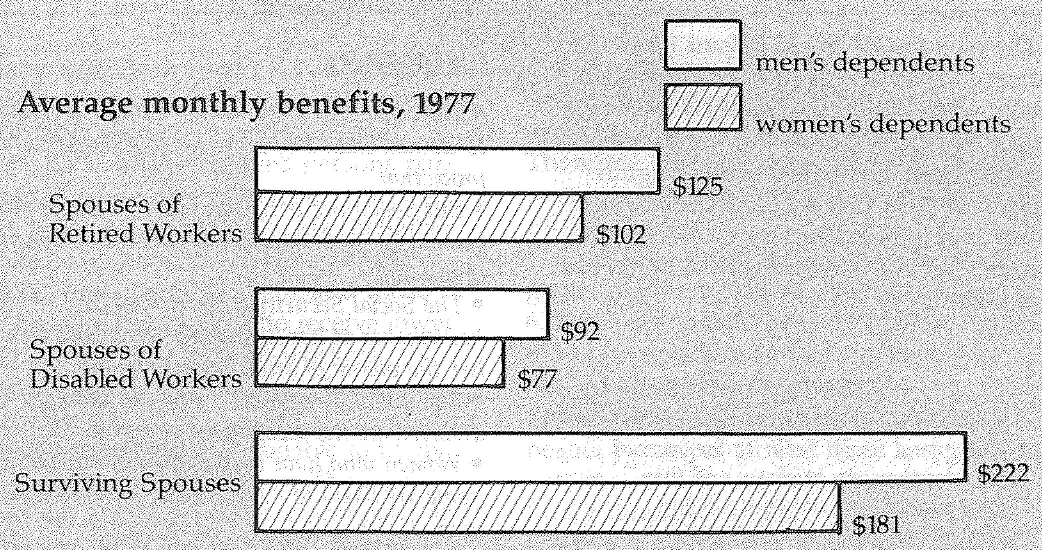
In addition to these factors, women are more likely than men to retire early, which automatically results in a reduced benefit. This may be related to the fact that women are likely to be younger than their husbands; when he retires at 65, she may retire early. Or it may be related to simple financial need — the woman may be aware that her benefits will be lower, but the income is needed badly enough when she is 62 to prevent her from waiting another three years.

The families of employed women receive less protection under Social Security than the families of working men. All dependent benefits are based on the amount of the retired worker's benefit. This means that husbands and children of female employees receive less than wives and children of male workers.

undergo "dependency tests" to prove actual financial need until the Supreme Court ruled this practice unconstitutional in 1977. New regulations may require that a dependency test be applied to all survivors.

The many women who combine homemaking and outside employment cannot receive benefits based on both kinds of work. Social Security functions on an "either/or" basis: the married woman may receive benefits as a dependent, based on her husband's earnings, *or* as an employee, based on her own contributions. The system refers to women who qualify for benefits under both categories as "dually entitled." But dual entitlement means the individual receives only one — the larger — of the two potential benefits. And 99.9% of those in the dual entitlement category are women.

Women's dependents receive less Social Security



Source: Social Security Administration

In addition, legal restrictions make it impossible for many survivors of female workers to qualify at all. Widows are assumed to be financially dependent and are therefore entitled to benefits in many cases. But widowers were required to

More than one million women in this situation, 11% of all women receiving Social Security benefits, receive a larger benefit as dependents than as workers, even though the dependent benefit is only 50% of the retired husband's benefit. The man-

Mandatory contributions to Social Security made by employed women often do not provide them with any benefit beyond what they would have received as life-long homemakers.

datory contributions these women made during their working years often do not provide them with any retirement benefit beyond what they would have received as life-long homemakers.

It is not known how many women receiving retired-worker benefits would also have been entitled to dependent benefits, but some of their productive years are similarly ignored. Their homemaking years are likely to reduce their eventual benefits, since they are averaged into the formula as "no earnings."

Single workers and two-earner couples are at a disadvantage under Social Security. An increasing number of women are remaining single. Single employed women contribute the same percentage of their paychecks as do married workers. But unlike the married worker, the single woman without children does not buy dependent coverage with her contribution, nor does she receive a larger benefit for that reason. In effect, her contribution helps to subsidize the dependents of married workers.

The nationwide trend toward two-earner couples is reflected in Minnesota's family work patterns. Currently over half of Minnesota husband-wife families have two incomes. The wife's work is significant: in 44% of two-earner families, her salary accounts for 30% or more of family income. Yet the benefit formula penalizes this pattern.

"My husband and I are farmers, having paid Social Security for years. I am older than my husband and they tell me that I will not be eligible to draw benefits until my husband becomes eligible. I think this is very unfair because I have worked hard and feel that I should be able to receive benefits when I become of age regardless of other factors."

...Testimony to the U.S. Civil Rights Commission, 1974

These situations are not specifically related to sex-based distinctions. The single male worker, for example, is penalized as much as the female — although his benefits are likely to be higher initially because of the likelihood of higher earnings. But they are important to women for two reasons:

- Several of the proposals introduced to remedy these problems would have a negative impact on women. One would increase benefits for retired workers and lower the dependent benefit from 50% to 33⅓%. Another would phase out spouse's benefits altogether.
- Single workers and two-earner couples are victims of institutionalized stereotypes, just as women are. Wives are likely to be secondary wage-earners and to have many other disincentives for working outside the home. Therefore the two-earner penalty is another barrier to the married woman's attempt to achieve economic security.

SUMMARY

- *The Social Security system is more accessible to women than any other form of financial protection.*
- *But Social Security, like other financial programs, does not adequately address the needs of women.*
- *The Social Security definition of the homemaker as her husband's dependent makes her the victim of arbitrary restrictions.*
- *The many homemakers who are widowed or divorced are not adequately protected.*
- *Women who have been employed outside the home are likely to receive lower benefits than men.*
- *The families of employed women receive less protection than the families of working men.*
- *The many women who combine homemaking and outside employment cannot receive benefits based on both kinds of work.*
- *Single workers and two-earner couples are at a disadvantage under Social Security.*

PENSIONS

PENSION TERMS

Benefit can be a general term meaning any income, or a technical term meaning a one-time lump sum payment, as opposed to an annuity.

Annuity means any regular payment of a fixed amount of money — usually monthly or yearly. Pension plans refer to two basic kinds of annuities:

Straight life annuity provides the retired employee with a lifetime income, but does not guarantee any income for his or her survivor. The retired employee's income is usually larger when this option is chosen.

Joint and survivor annuity guarantees a lifetime income to the retired employee, and a lifetime income to his or her spouse, if the spouse outlives the employee. The retired employee's income is usually reduced if this option is chosen.

Example. If John Doe, the employee, chooses a straight life annuity, he will receive $100 a month. When he dies, his wife Jane receives nothing. If John chooses a joint and survivor annuity, he will receive $80 a month — but when he dies, Jane will receive $40 a month for the rest of her life.

Vesting is the right of a pension plan participant to claim the money accumulated on his or her behalf, based on contributions made by the employer or union. The employee must usually be a certain age, or have worked for the company a certain number of years — or both — to be vested. Once the employee is vested, s/he may change jobs without losing pension benefits, which can be collected *if and when* s/he reaches retirement age.

Many women depend on pension plans as one way of providing economic security for their retirement years. In Minnesota, 63% of all employed persons participate in some type of pension plan. Yet many women find that they are ineligible to collect any benefits, either as workers or as dependents of workers; and those who are eligible are likely to receive lower benefits than their male co-workers.

Pension plans fall into one of two major categories:

Private pensions are available to many non-government employees. There are more than 10,000 private pension plans in Minnesota, with 869,319 participants. Such plans may be marketed to employers or unions by insurance companies or they may be operated directly by the employer and/or union. Most private pension plans are governed by the federal Employees Retirement Income Security Act of 1974 (ERISA), also known as the Pension Reform Law. Data on private pensions in Minnesota is not readily available since this law is relatively recent. Therefore, private pension data in this report is taken from several national pre-ERISA studies.

Public pensions are available to most government employees. Minnesota has 632 separate public pension systems, governed by state law and administered by elected or appointed representatives. These plans have a total of 232,726 Minnesota participants. The three largest such systems are referred to in this report: the Public Employees Retirement Association (PERA), which covers municipal, county, and non-professional school district employees; the Teachers Retirement Association (TRA), for professional school district staff and staff of community colleges and state universities; and the Minnesota State Retirement System (MSRS), covering state employees and non-professional employ-

Both public and private pension plans provide the greatest rewards to employees with high salaries and many years of service.

ees of the University of Minnesota. Together these three systems account for 82% of all public (non-federal) employees in Minnesota.

In non-government jobs, women are less likely than men to be enrolled in pension plans. Only 36% of women employed in the private sector are covered by any kind of pension, as compared to 52% of non-government male employees. This situation reflects once again the differences between male and female employment patterns, with financial incentives weighted in favor of the former. Women are more likely to be part-time, temporary, or seasonal employees — most of whom are not covered by pension plans. Plans may also exclude employees under age 25 — 68% of women in the 16-24 age group are employed. In addition, women are more likely than men to be employed in the retail and service industries and in non-unionized jobs, also conditions associated with lack of pension coverage.

Women who are enrolled in retirement plans are less likely than men to achieve vested status in both public and private systems. Most private plans require a minimum of ten years employment with the same company in order to achieve vested status. Largely because of family responsibilities, women are more likely than men to have fewer total years in the labor market and to work intermittently. Even those women who have the opportunity to participate in a pension plan may never achieve vested status. In 1976, among all Americans age 65 or over, only 9% of women — as compared with 25% of men — were receiving any income from a private pension plan according to the Census Bureau. In public plans, 9% of women and 13% of men in this age group were receiving any pension income.

Women in Minnesota public employment also are likely to have shorter job tenure than men. Although they are less likely to leave their jobs because of death or disability, this effect is outweighed by women's higher rate of voluntary separation. In all three Minnesota public plans, non-vested employees may receive a lump-sum refund of their accumulated contributions, sometimes including interest, if they leave work before vesting. But they become ineligible for benefits at retirement which would have also included the employer's contribution.

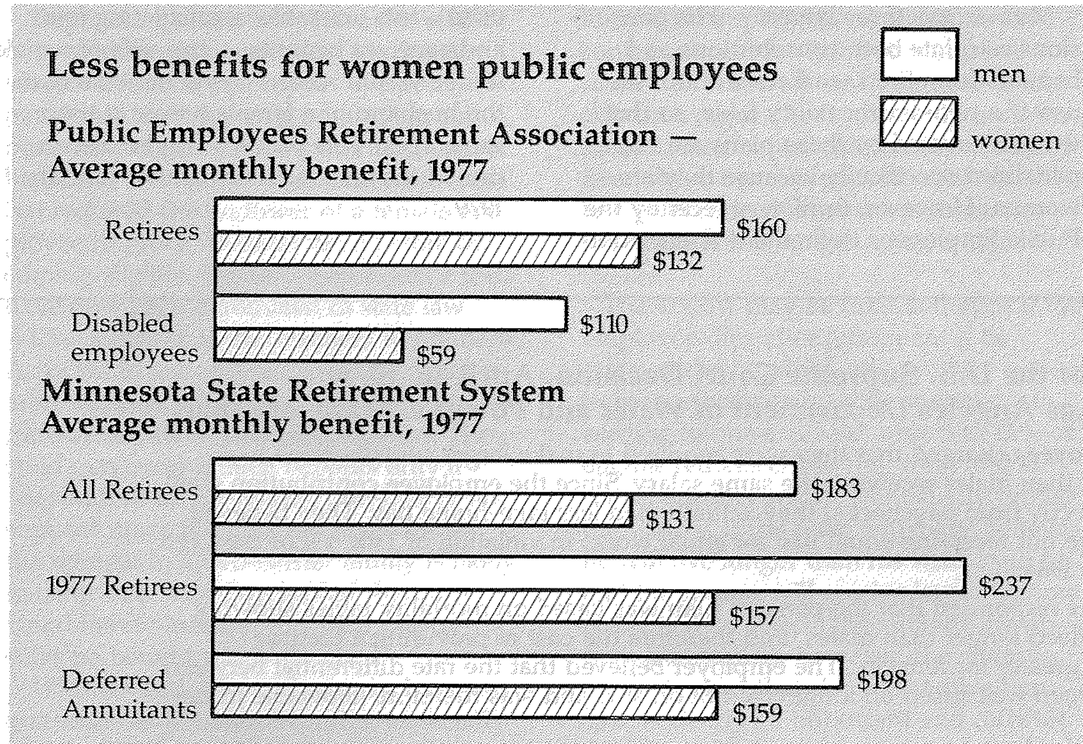
Pension formulas based on salary and years of service result in smaller benefits to retired women. Both public and private systems provide the greatest rewards to employees with high salaries and many years of service. Although the woman may have worked for enough years to reach vested status, she has still probably worked fewer years than her male co-worker. Her lower salary is an additional disadvantage.

Although the formula used by Minnesota's public pensions is not gender-based, it reflects and extends continuing inequities in employment practices. This formula alone accounts for the large discrepancy between male and female benefits in Minnesota's largest public pension plans. Women receive from $336 to $960 less per year than men in these systems.

Probabilities of separation from public employment, 1977

	Percent of males	Percent of females
Age 20-24	23.0%	35.4%
Age 25-29	16.5	28.5
Age 30-34	11.6	22.0
Age 35-39	8.3	15.1
Age 40-44	6.0	9.7
Age 45-49	4.4	6.8
Age 50-59	3.0	5.0

Source: Minnesota State Retirement System Public Employees Retirement Association



*Source: Public Employees Retirement Association
Minnesota State Retirement System*

A 1976 Census Bureau study of persons 65 and older receiving private pension benefits showed that the median benefit for women was only 65% of that for men — $1,340 annually as compared with $2,060.

In private pensions, actuarial assumptions about women's longevity also contribute to lower benefits for women. Women's pensions are frequently reduced by an amount large enough to account for a five-year difference in life expectancy between women and men. In other words, the statistically "average" woman will eventually receive the same total benefit amount as the "average" man because she will live longer. But for the many women who do not match the average and who are already receiving low benefits for other reasons, this is a serious disadvantage.

This practice is currently being appealed to the Supreme Court. In Minnesota the issue has received considerable attention in connection with a University of Minnesota faculty retirement plan which provides benefits about 15% lower annually for female faculty members. This and other insurance issues are now being considered at the federal level. The Supreme Court ruling in *Manhart vs. City of Los Angeles Department of Water and Power* in the spring of 1978 was an important step. Further court decisions, regulations of federal agencies, and/or Congressional action may result in higher benefit levels for retiring women.

Most of the proposed changes, however, would affect employers more directly than the insurance industry. Employers may eventually be required to contribute a larger amount of money to a plan on behalf of female workers than for male workers in order to satisfy insurance actuaries who continue to rely on two-sex rating tables. As long as such tables are considered acceptable, there may be a disincentive for employers to hire women — in effect, women would increase the employer's overall payroll costs.

Minnesota's three largest public pensions calculate both contributions and benefits for retired workers without the use of a two-sex mortality table, so that women covered by these plans are not penalized specifically because they are women. However, until very recently the Public Employees Retirement Association used a two-sex table in calculating joint and survivor benefits — the wife of a male retiree would receive lower benefits than the husband of a female retiree at the same ages. This practice will be discontinued for persons retiring after January 1, 1979.

Summary of the U.S. Supreme Court Decision, April 26, 1978: City of Los Angeles Department of Water and Power v. Marie Manhart

Female employees charged that they were required to make larger contributions to a pension plan than males receiving the same salary. Since the employee contribution was deducted directly from paychecks, they actually had less take-home pay. They believed that they were not receiving equal pay for equal work, in violation of Title VII of the Civil Rights Act of 1964.

The employer responded that the pension plan was based on mortality tables showing that females lived longer than males, and therefore the cost of providing a lifetime pension was greater for females. The employer believed that the rate differential between men and women was based on longevity, not on sex, and was therefore allowable under the law.

The court ruled that this employment practice constituted sex discrimination. Although it is true that women as a group outlive men as a group, the law focusses on fairness to individuals rather than fairness to groups.

> *"The statute makes it unlawful to 'discriminate against any individual with respect to his compensation, terms, conditions or privileges of employment, because of such individual's race, color, religion, sex, or national origin.' ...If height is required for a job, a tall woman may not be refused employment merely because, on the average, women are too short."*

The court did not agree with the employer's argument that the differential was based on a factor other than sex.

> *"It is plain...that an individual's life expectancy is based on a number of factors, of which sex is only one...One cannot say that an actuarial distinction based entirely on sex is 'based on any other factor than sex.' "*

Back pay to the women who had been discriminated against, however, was denied.

> *"We must recognize that conscientious...administrators of pension funds...may well have assumed that (this practice) was entirely lawful. ...Retroactive liability could be devastating for a pension fund. The harm would fall in large part on innocent third parties."*

Implications of the case are not yet clear. The court was cautious in stating:

> *"We do not suggest that the statute was intended to revolutionize the insurance and pension industries... (the ruling) does not call into question the insurance industry practice of considering the composition of an employer's work force in determining the probable cost of a retirement plan."*

The ruling will directly affect some employers, but may have little or no effect on insurance companies.

The ruling did not specifically address a parallel, and probably more common, pension practice: many plans require the same *contribution* from men and women, but pay women less in *benefits*. This issue will be considered by the Supreme Court in a pending case. In addition, the U.S. Department of Labor is currently considering regulations which would rule this practice in violation of the law.

Widows and divorced women may be excluded by any one of many loopholes in pension plans.

Dependency tests may have the effect of providing less protection for the survivors of female employees in public pensions. Until recently, some plan components automatically awarded a survivor benefit to the widow of a male employee, but required the widower of a female employee to prove financial need before becoming eligible. Spousal dependency tests have now been eliminated in state law.

One element of the Teachers Retirement Association law still in existence makes it more difficult for women than for men to provide for their surviving children. The child may receive such benefits only if "dependent for more than one-half of his support upon the plan member." Since the woman in a two-earner family is likely to contribute less than half of the combined family income, the child may receive no benefit when she dies.

Widows and divorced women have no guarantee of pension benefits, especially in private plans. According to one national study, only two per cent of all widows whose husbands were covered by private pension plans received any survivor benefits in 1974. Those who do qualify receive very small amounts. Widows and divorced women may be excluded by any one of many loopholes:

- "Coordinated" public pension plans, including parts of all three Minnesota systems, make no guarantee of survivor benefits if the employee dies before early retirement age, except for a refund of accumulated contributions plus interest. The assumption is that since such plans are coordinated with Social Security, survivors will receive benefits from that system. This is not necessarily true.
- In private pensions, if the employee dies before reaching early retirement age the survivor may receive nothing. Survivor protections required by ERISA apply only to death after reaching retirement age. Some pension plans pay the widow a lump-sum benefit based on employee contributions plus interest; some will make this relatively small amount available on a regular basis, but only until the accumulated contributions are exhausted. Even these benefits provide considerably less protection than survivor annuities because there is no guaranteed income for life.
- The widow may be excluded even if the employee dies after retirement if he selected the "straight-life" annuity option, in both private and public systems. According to one estimate, only 5 to 15% of eligible retirees chose the "joint and survivor" annuity which will usually protect the widow. If the male employee believes he will live longer than his wife, both he and his spouse will receive larger lifetime benefits if he selects the straight-life option. Statistically, however, the chances are very good that she will outlive him. This is clearly an important and difficult decision which ought to be made by both members of an economic partnership. But there is no requirement that the spouse participate in, consent to, or even be informed of the choice made by the retiring worker.
- All three public plans and virtually all private plans exclude divorced and separated women from survivor benefits in the event the employee dies, regardless of the length of the marriage. The woman is sometimes required to have been "married to and living with" the worker at the time of his death in order to be eligible. Minnesota law requires that judges consider lost pension benefits when awarding divorce settlements. But the value of deferred benefits is difficult to establish, and it is difficult to determine whether this provision has been of help to a significant number of women.

Many women have been shocked to learn that their husbands' pensions offer them very little protection or none at all.

Changes in survivor benefit provisions of the pension law are badly needed.

Their financial situation is even more precarious than that of the employed woman who has a stronger guarantee. Changes in survivor benefit and survivor annuity provisions of the law are badly needed, but will take time to achieve. Even when ERISA was being enacted, it was recognized that this important step would leave many women in vulnerable situations.

SUMMARY

- *Women in non-government jobs are less likely than men to be enrolled in pension plans.*
- *Women who are enrolled in some type of retirement plan are less likely than men to achieve vested status in both public and private systems.*
- *Pension formulas based on salary and length of service result in smaller benefits to retired women.*
- *In private pensions, actuarial assumptions about women's longevity also contribute to lower benefits for women.*
- *Dependency tests may have the effect of providing less protection for the survivors of female employees in public systems.*
- *Widows and divorced women have no guarantee of pension benefits, especially in private plans.*

Significant Provisions of the Private Pension Reform Law (ERISA) of 1974

- Provides termination insurance for most plans — if the company goes bankrupt, vested employees will still receive benefits.
- Requires that covered employees receive an explanation of the plan, written in plain language.
- Sets minimum vesting standards. Covered employees must be at least 50% vested after 10 years of service, and 100% vested after 15 years, regardless of age.
- Requires most plans to provide for a "joint and survivor annuity," although the employee may choose not to have this coverage. If the joint and survivor annuity is chosen, and the retired employee dies, the survivor's annuity must be at least half of the retiree's benefit.
- Creates tax-sheltered Individual Retirement Accounts (IRAs) for persons not covered by a pension plan. In 1977, provisions were made to allow nonemployed spouses to be covered by IRAs as well.

The law *does not:*

- Guarantee benefits to survivors of employees. If the employee dies before reaching early retirement age, or if s/he has waived the joint and survivor option, the survivor is likely to receive nothing.
- Require that the employee's spouse consent to, or be informed of, the decision to waive a joint and survivor annuity.
- Require plans to include employees under age 25, or employees who begin work within five years prior to the plan's "normal retirement age."
- Guarantee protection to divorced survivors, regardless of the length of the marriage. A plan may require that employee and spouse be married at the starting date of annuity payments, and at the time of the retiree's death, for the survivor to receive an annuity.

INVESTMENTS

"Investment," like "insurance," is a broad term. Social Security, for example, is a group investment as well as a group insurance plan. Many investments can be converted to cash and used at any time and in any way the individual wishes. Since many women have unmet needs in the area of retirement security, this section of the report deals only with individual investing for the primary purpose of providing a retirement income.

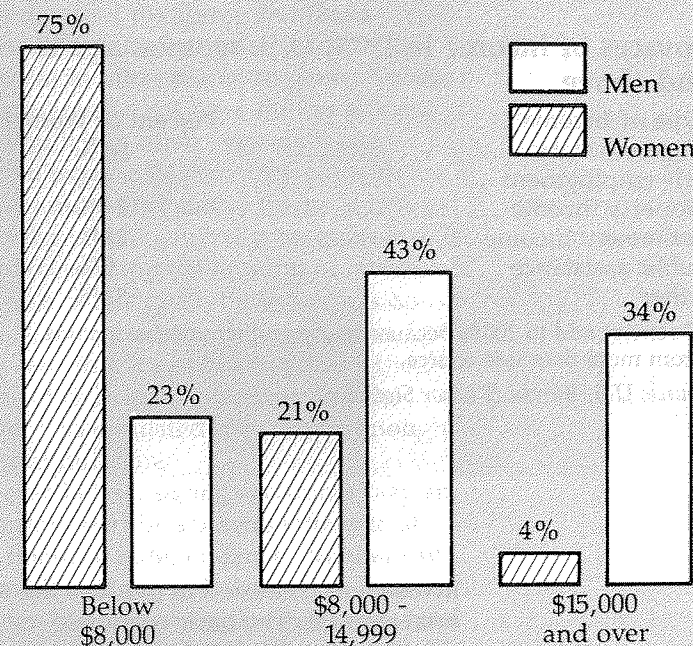
The primary economic systems designed to meet this need, or to supplement income from pensions and Social Security, are Individual Retirement Accounts, Keogh Plans, and life insurance annuities. Individuals may also use other kinds of investments or ordinary savings accounts for this purpose.

A major advantage of retirement planning through personal investing is that the individual has a great deal of control over financial decisions. In group programs such as Social Security, the maximum return on contributions is obtained by individuals and families who fit an institutionalized norm. Social Security rewards single-earner husband-wife families more than single persons or two-earner couples. Individual investments can be tailored to the needs of the individual and restrictions related to sex or marital status are less common.

Most women do not have access to the "discretionary" income necessary for investing; and women are less likely than men to begin retirement planning early. The individual who wants to plan ahead must have financial resources greater than what is needed to "get by" and support families on a day-to-day basis. The average full-time employed woman earns less than $8,209 per year, and the median yearly income for a female-headed family in Minnesota in 1977 was $8,050. The full-time married homemaker does not often have access to a significant amount of money available for her own investing. Only seven percent of Minnesota women in 1975 had incomes of more than $10,000 annually and less than two percent received more than $15,000 — compared with 44% and 21% respectively for Minnesota men.

Women have less income

Total income from all sources, Minnesota 1975, for those with incomes age 25-64



Source: Bureau of The Census

Women have not traditionally been encouraged or trained to take themselves seriously as participants in the economy. The societal assumption that women will be taken care of by their husbands or fathers is shared by many women. Many women do not plan independently for their own financial future until they arrive at a life crisis such as divorce or widowhood.

Older women in these situations may be simply too late to benefit in any way from company pension plans or from Social Security. It is more likely that they will receive some benefit from a personal investment plan. But unless such a plan has been initiated early in her adult life, this kind of protection is purchased at a much higher cost. A small amount of money can earn considerable interest over an extended period of time; in a shorter time period a much larger initial

Sources of income in 1975, U.S. women age 14 and above

Type of Income	Percent of Women*
Wage or salary	68%
Self-employment	4%
Property income	24%
Retirement income	28%
Public assistance	9%
Other	13%

*Does not add to 100% because many women receive income from more than one source.

Source: U.S. Bureau of Labor Statistics

investment is needed to produce the same total amount. The basic economic principle that "time is money" works to the disadvantage of the older woman who takes control of her financial destiny later in life.

Some women can benefit from an Individual Retirement Account or a Keogh Plan; but these programs provide very little protection to the women who need it most — homemakers and women with incomes under $15,000. There are two basically similar methods of creating an individual pension fund, designed for persons who cannot take advantage of group pensions. A certain amount of money is set aside in a special fund, usually through a bank or other financial institution. The money deposited is tax-deductible; that is, the deposit can be deducted from the individual's income in determining federal income tax. The accumulated deposits plus interest can be claimed at age 59½, at which time taxes will apply. However, the individual is likely to have a lower income and therefore lower taxes at that age. A substantial tax penalty must be paid if the money is withdrawn before that age.

To participate in a Keogh Plan, the individual must be self-employed. Homemakers are not considered self-employed under Internal Revenue Service regulations and therefore cannot qualify. The number of women who fit this strict definition is quite small — only four percent of women in the U.S. have income derived from self-employment.

Individual Retirement Accounts or IRAs are designed for persons who are not currently covered by any other type of pension plan on a particular job. An individual covered by a private or government pension plan may ask her employer to exclude her so that she can participate in an IRA. This would be advantageous for many women: those who are not able to meet vesting requirements under a group plan, those who receive lower benefits because of low salary or shorter job tenure, and those who are penalized in group plans because of their longevity. Unfortunately, most group pension plans are mandatory — if employers excluded the people who are likely to make contributions without receiving benefits, the plans would have a smaller margin for investment.

Homemakers can be covered by IRAs under certain circumstances. A separate IRA may be established by the employed spouse on behalf of the unemployed spouse, with contributions made by the employed spouse. If the homemaker has any earned income, however, she will not qualify for this "spousal" plan. In the case of divorce, her husband may not contribute to her plan even if he wants to under existing regulations. Although the spousal IRA is in the homemaker's name and she has all legal rights to it, she remains dependent upon her husband to establish and maintain her account.

The woman who qualifies for her own non-spousal IRA may still be excluded because of her relatively low wages. The paperwork involved may be an administrative inconvenience for the managing institution. As a result, the American Council of Life Insurance notes that "it is understandable that some banks and life insurance companies will not set

The number of women who can afford to invest enough money to protect their retirement years is very small.

up IRA plans unless the individual has an annual earned income of over $15,000" — which would exclude over 98% of Minnesota women.

Deferred compensation plans are one option which could be helpful to some women. As in Keogh and IRA Plans, the participant deposits a portion of her earnings into a fund. These earnings are not taxed until they are withdrawn at retirement. This option, unlike IRA, is available to persons who are also covered by a group pension plan. Deferred compensation is available to all public employees in Minnesota, with a small percentage of the contribution deducted for administrative costs. It is estimated that 28,000 public employees participate. Such plans are also marketed by private insurance companies, which estimate that about 20% of the employed population could participate advantageously — although a larger proportion of the contribution is deducted when the plan is operated on a for-profit basis.

These plans, however, have the same major drawback for women seeking to protect their retirement years as most other forms of investment: the number of women who can afford to invest enough money to fulfill this purpose is very small.

The relatively few women who are able to purchase individual annuities are usally penalized by two-sex mortality tables. Such plans are usually sold by life insurance companies for the primary purpose of providing a retirement income; they have the considerable advantage of being unrelated to marital status or employment status. Any individual with enough disposable income can purchase an annuity.

But individual annuities, like pension plans, are usually calculated using mortality data. Women may be required to pay higher premiums to receive the same monthly retirement income as men — or may receive lower benefits while paying the same amount in premiums. Some annuities provide for a cash return of the amount invested plus interest, in which case mortality tables do not apply. But once the periodic income payments begin this option is usually unavailable.

Other investments and ordinary savings accounts are used by some women for retirement planning; but these methods lack many of the financial advantages in other plans. In general, these investments do not have the tax advantages built into other systems. Many women may be less comfortable with the slightly more speculative forms of investment than men: generally, no guarantee is made concerning the amount of return available at any given time. Savings accounts, of course, are not speculative but they earn much less interest than other forms of retirement planning and the amount accumulated may not be enough to offset inflation.

Nevertheless, savings accounts play an important part in women's efforts to attain financial independence. Neither savings accounts nor investments exclude women because of employment or marital status; neither involve the use of mortality tables; and both methods are at least as reliable as other financial systems.

SUMMARY

- *Most women do not have access to the discretionary income necessary for personal investing. Women are less likely than men to begin retirement planning early.*
- *Some women can benefit from an IRA or Keogh Plan; but these programs provide very little protection to those who need it most — homemakers and women with incomes under $15,000.*
- *Deferred compensation plans are one option which could be helpful to some women.*
- *The relatively few women who are able to purchase individual annuities are usually penalized by two-sex mortality tables.*
- *Other investments and ordinary savings accounts are used by some women for retirement planning; but these methods lack many of the financial advantages of other plans.*

Significant Provisions of the Equal Credit Opportunity Act of 1975

The law applies to: all commercial banks, credit unions, savings and loan associations, retail stores, consumer finance companies, non-bank or retail credit card issuers.

Generally, credit may not be denied on the basis of sex, marital status, race, religion, national origin, age (unless the applicant is too young to sign a legal contract) or receipt of public assistance.

Creditors may not require the following information, and may not use such information as an indicator of credit-worthiness or reliability:
- — marital status; in some cases, this is legal, but must be confined to "married," "unmarried," or "separated."
- — spouse's financial status, unless spouse's income is being used for eligibility, or if spouse will also use the account.
- — information about birth control use or childbearing plans.
- — information about receipt of alimony or child support.

Creditors may not refuse to consider:
- — income from alimony or child support, if the applicant chooses to report such income for credit purposes.
- — income earned in part-time work.
- — the wife's income, in the case of a couple applying for a joint account.

In reporting names of account holders for developing credit histories, creditors must:
- — open or maintain accounts in the applicant's own (legal) name — the woman's maiden name, her husband's surname, or a combined surname.
- — report accounts in both spouses' names for joint accounts, for all accounts opened after June 1, 1977. All persons with such accounts opened before that date were notified of their right to have the account reported in both names.

If credit is denied, the creditor must:
- — notify the applicant in writing within 30 days of application.
- — present written reasons for denial, or inform the applicant of her right to written reasons.
- — notify the applicant of the ECOA, and the address of the enforcing agency for that particular lending institution.

Civil liability. In addition to appealing denial to the enforcement agency, any individual who believes she has been discriminated against may file a civil suit, which could result in up to $10,000 in damages.

Women now have more specific guarantees of equal treatment in the area of credit than in any other economic system.

Nationally, total outstanding consumer credit rose from $21.5 billion in 1950 to $185.4 billion in 1975. *Consumer Reports* notes that there are more than two credit cards for every person in the country. In fact 80% of all Americans use credit in some form.

Credit is a way of making money available now — "buy now, pay later." Other systems discussed in this report ensure an income for the future by paying now. Because so many women are "getting by" in the present and therefore have less access to future security, credit is of great importance to them.

It has long been recognized that women play an important role in consumption, and therefore in credit decisions. The purchase of household goods such as food, clothing, and furniture is an important part of the traditional homemaker's role and a significant contribution to her family's well-being. In many cases she also prepares the budget, keeps the records, and actually pays the bills. The homemaker may therefore have carried complete responsibility for the family's credit history. But if she becomes divorced, separated, or widowed, she may find that she has lost this asset because the accounts were in her husband's name.

Though advertisers and market researchers acknowledge the woman's significance as purchaser, she was for many years relegated to an inferior, dependent status in terms of access to her own credit.

In the past women faced many barriers in obtaining credit. Women presented evidence of widespread discrimination in credit practices to the Joint Economic Committee of the U.S. Congress in 1972.

- Single women had more difficulty in obtaining credit than single men in similar situations, despite evidence that single women as a group are excellent risks.
- Single women were often required to re-apply for credit upon marriage, usually in their husbands' names.
- Married women were denied accounts in their own names or were required to provide information on their husbands' financial status even for their own accounts.
- Marital status was considered an important factor in determining reliability — 65% of savings and loan companies used marital status as a criterion. Divorced women were also handicapped by refusal to consider alimony or child support as income.
- When a married couple applied for credit, all or part of the wife's income was likely to be discounted on the assumption that she was likely to quit work. Only 28% of credit grantors gave full credit to her income in considering mortgage applications.
- Women were often required to provide information about their birth control practices or childbearing plans on the assumption that they would quit work to have children and be unable to repay debts.

The Equal Credit Opportunity Act of 1975 is a landmark in acknowledging women's rights to equal economic opportunities. In the same year, Minnesota added "marital status" to the definition of discriminatory criteria under the Human Rights Act, which already prohibited credit discrimination based on sex. Women now have more specific guarantees of equal treatment in the area of credit than in any other economic system. Unlike any other equal opportunity legislation, the Equal Credit Opportunity Act (ECOA) caused immediate system-wide change. The requirement that creditors take the initiative in informing applicants of their rights and of reasons for denial speeded this process.

According to Robert Mylod, President of the Advance Mortgage Corporation, the requirement that the wife's income be considered may have been a significant factor in the single-family housing boom in 1976. The ECOA "increased the mortgaging power of millions of two-income families 40 to 60 per cent. It also made mortgages much more available to single women, although the impact of this change is hard to quantify."

"When credit is viewed merely as the means to indulge a bottomless appetite for material goods, the whole issue of women's access to it seems of marginal importance. But...lack of credit or a credit record can present severe handicaps to women in home buying, in financing an education, purchasing durable goods, or setting up their own businesses."

— *Jane Roberts Chapman in Economic Independence for Women*

It is extremely difficult to quantify the impact or to monitor the enforcement of the new law. Because the ECOA is relatively new, many changes are still in process. One Federal Trade Commission official noted that the law provides for "selective enforcement that will have a deterrent effect...the major enforcement will be left up to individuals who choose to bring suit." In fact, twelve different federal agencies have some responsibility for enforcement — each has jurisdiction over a different type of creditor.

Most of these agencies have very small budgets for enforcement staff. Complaint records may simply indicate that more consumers are aware of their rights. For example, the Federal Trade Commission received 2,000 complaints of sex discrimination in 1976 and 6,500 in 1977. Only a handful resulted in litigation — some were dismissed and some were settled out of court.

A number of government agencies provide assistance in the form of grants and loans to citizens buying houses — in particular, the Federal Housing Administration and the Minnesota Housing Finance Agency. However, no data is available to indicate how many women receive such assistance, either now or before passage of the Equal Credit Act.

"Women and Banking," a 1977 survey conducted by Sonia Bowe-Gutman for the Banking Division of the Minnesota Commerce Department, showed that most creditors do not collect data by sex on credit applications. While it is illegal to *require* applicants to give this information, it could be collected on a voluntary basis with notice to applicants that responses would have no bearing on the decision to grant credit. This data could be extremely useful in determining whether women do in fact have greater access to credit since passage of the ECOA.

It appears that many women are still unaware of their credit rights. Both the ECOA and the Minnesota Human Rights Act provide for civil suits which can be brought by consumers. Apparently such actions have been very rare. Under the Minnesota law only twelve complaints were made in the two-year period from July 1974 to July 1976.

The importance of developing an individual credit rating as a means of protecting one's financial status has been emphasized. The ECOA required creditors to send notices to all joint account holders informing them of their right to have the account listed in both spouses' names. More than three million such notices were sent nationally. But the rate of response was only about 9 to 16% for major bank credit cards, 7% for nationwide retailers, and 3% for oil company credit cards. In Minnesota, three large retailers reported response rates ranging from 7% to 12%. Many married women have apparently ignored this opportunity to develop their own credit histories.

SUMMARY

- *It has long been recognized that women play an important part in consumption and therefore in credit decisions.*
- *In the past women faced many barriers in obtaining credit.*
- *The Equal Credit Opportunity Act of 1975 is a landmark in acknowledging women's rights to equal economic opportunities.*
- *It is extremely difficult to quantify the impact or to monitor the enforcement of the new law.*
- *It appears that many women are still unaware of their credit rights.*

TAXES

Taxes exist for the purpose of supporting government. Tax systems are extremely complex — the Minnesota Department of Revenue, for example, directly administers taxes on income, sales, gifts, inheritance, gross earnings, deeds, mortgage registry, liquor, beer, cigarettes, and petroleum products. The questions of how much taxation is appropriate and how tax money should be spent have always been the subject of considerable controversy.

One of the reasons for the controversy is the difficulty of determining exactly what return the individual receives on his or her contribution — most people do not see a direct, immediate, and personal benefit. Taxes are clearly a form of "invisible money" in this sense.

Although a comprehensive review of tax systems is beyond the scope of this report, several issues of particular importance to women and their families can be outlined.

Federal income tax penalizes two-earner couples. As noted earlier in this report, more than half of all Minnesota families in 1977 had two incomes, a phenomenon associated with women's increased participation in the labor force. Yet the employed wife still faces economic systems which discourage and devalue her contribution, especially since her income is likely to be less than her husband's. The "tax cost of marriage" is best illustrated by the examples shown.

In these two examples, the "tax cost of marriage" ranges from $406 to $885. In terms of federal income tax, the *lower* Sue's salary, the better.

Key differences between the state and federal systems are:
1. The federal system uses three separate tax tables — single, married/joint, and married/separate — which accounts for the differences shown in the examples. Minnesota state income tax uses only one table, regardless of marital or filing status. The higher tax figure for married couples filing jointly for state purposes is simply the result of a higher tax bracket for the

Example 1. Sue and Sam each have a gross income of $15,000. Their state and federal taxes will vary according to their marital status and filing status as shown.

	Federal income tax paid for 1977	**State income tax paid for 1977**
If they are not married, each will file separately, and their combined total is	$4,944	$2,018
If they are married and file jointly, they will pay a total of	5,957	2,661
If they are married and file separately, they will pay a total of	6,076	1,890
tax cost of marriage	$1,013 higher	$ 128 lower

Example 2. Sue's gross income is $8,000; Sam's is $15,000.

If they are not married	$3,286	$1,411
Married, filing jointly	3,731	1,963
Married, filing separately	4,062	1,372
tax cost of marriage	$ 445 higher	$ 39 lower

Child care tax credits may be inadequate, and may not provide any assistance to those who need it most.

higher aggregated income. The state system also allows the taxpayer to deduct the amount of federal tax to be paid before calculating state taxes. This accounts for the relatively small discrepancy between single individuals and married individuals filing separately. The latter are more heavily taxed by the federal system and can therefore deduct slightly more from their state taxes.

2. Married couples can choose to file separately for state purposes even if they file jointly for federal purposes — thus reducing their penalty. The state system provides an additional option for married couples, which is not shown in the examples: they can file a combined return. Essentially, this amounts to filing separate returns on the same form. But some couples can gain an advantage in this way by itemizing deductions — the combined return allows them to combine and allocate their deductions in whichever way is most advantageous to them.

Federal and state child care (income) tax credits provide some assistance to employed mothers; but these credits may be inadequate, may not provide any assistance to those who need it most, and are treated very differently from other business expenses. Eligible parents, including single parents, can claim a maximum of $1,200 per year by taking advantage of both federal and state child care tax credits. This can help to offset other disincentives for women to work outside the home. But in order to receive the maximum of $1,200 — $800 federal and $400 state credit — the parent/s must fulfill all of the following requirements:

- Both spouses must be employed, or one is employed and one is a full-time student. Single parents must be either employed or full-time students. In the case of divorce, the parent who has custody is eligible to claim the credit.
- The parent/s must have at least two children under age 15, for whose care they spent at least $4,000 in the course of the year.
- The lower-paid spouse must have an annual income of more than the total actual child care cost — $4,000 or more — to meet the federal requirement. And total family income must be less than $12,000 to claim the maximum state credit.
- The child can be cared for by a non-relative in the child's own home, in another home, or in a group center. S/he can also be cared for by a relative, but the relative may not be a dependent of the parent. In addition, the parent must contribute to Social Security on behalf of the relative an amount equal to both the employer's and employee's share.
- If married and living together, the parents must file a joint return for federal purposes — which is probably to their advantage anyway — and a joint or combined return for state purposes, which may not be to their advantage.

The parent/s may qualify for a credit of less than the maximum if they cannot meet all of these requirements — for example, if they have only one child, they may be able to claim a maximum of $600. But even the $1,200 may only compensate parents for a small portion of their actual child care expense. According to one estimate, $1,560 is an average yearly cost for the care of *one* child in a family day care home in Minnesota, one of the least expensive and most accessible alternatives. A typical group day care center in Minneapolis has an average cost of $2,523 per child per year.

The flat limit on maximum credit is one of the major differences between the child care tax credit and "business expense" as defined by tax sytems. Although credits are generally more favorable for low-income people than deductions, the child care tax credit is non-refundable. This means that people whose income is so low that they pay little or no taxes do not receive any assistance under the current system.

Several groups of parents who need this kind of assistance are unable to receive it:

- Some women, for example those seeking to re-enter the job market, are willing to accept jobs which pay less than the family's actual child care costs as a way of gaining training and experience for future careers. But they would not be eligible under federal regulations.

- Larger families with more than two children, regardless of their child care costs, cannot receive more than the $1,200 maximum.
- Twenty-eight percent of employed mothers in Minnesota rely on relatives or household members for child care. Many of these care-givers are grandparents or older children who could often be claimed as dependents, thereby reducing the parents' taxes. With the added requirement that parents pay Social Security taxes, the child care tax credit may not be an advantage.
- Many low-income families who are "getting by" cannot afford to pay for child care in the first place and many parents do not have access to child care. In some homes, young children are simply left alone after school and before parents return from work. The child care tax credit does nothing to improve this situation.

In spite of these issues of adequacy and equity, the systems do provide some assistance to some of the employed mothers who need it. The federal provisions have been revised at least four times by Congress so future reforms may alleviate these situations.

State inheritance tax laws have not recognized marriage as an equal economic partnership in the past, but recent developments in Minnesota may improve this situation. For most families with moderate incomes, state inheritance taxes and federal estate taxes are not a significant problem because they have built-in exemptions for surviving spouses. But with recent inflation in land values, family farms can represent substantial assets which create a significant tax problem for the widow. Some family businesses may be similarly jeopardized.

The *Nordby* case decided by the Minnesota Tax Court in February 1978 is related to joint tenancy. When an asset is

Minnesota Tax Court Ruling, ***Leona Nordby v Commissioner of Revenue*****, 1978**

Lewis and Leona Nordby bought a farm for $12,000 out of joint savings in 1948. The farm was held in both names (joint tenancy). Both spouses operated the farm together, borrowed money together, and maintained joint bank accounts. When Lewis died in 1976, the farm was valued at $176,586.

Under Minnesota law, the surviving joint tenant must pay inheritance tax on the entire joint asset — in this case, the farm — unless s/he can prove a contribution in "money or money's worth." Since income taxes and self-employment taxes had been filed in Lewis' name only, Leona could not prove an ongoing monetary contribution. The Department of Revenue said she had two alternatives in paying inheritance taxes on the farm:

- She could claim the martial exemption, amounting to half the property value, and pay taxes on $88,293; or
- She could claim a personal exemption as surviving spouse of $60,000, a homestead exemption of $45,000, and other exemptions of $5,000. This $109,000 total would be subtracted from the total value of the farm, and she would have to pay taxes on the remaining $67,586.

But Leona claimed that she already owned half of the farm, since it was held in joint tenancy and jointly operated. The tax court ruled in her favor, saying that there was an "implied agreement to share profits." So she actually inherited only Lewis' half. Since her $109,000 in exemptions was higher than his half of the farm value — $88,293 — she was not required to pay inheritance tax.

The property must be owned in both names and the survivor must prove a contribution in order to avoid paying inheritance taxes on the entire asset.

separately owned, in the name of only one spouse, the case for the survivor paying taxes on the full amount inherited is clear. The problem under joint tenancy is that the survivor must prove a contribution to the asset in order to avoid inheritance taxes on the entire asset. Since income tax returns and other documents are often in the husband's name only, it is more difficult for the wife to prove her contribution — and it is more likely that the woman's contribution is non-monetary, which also makes her claim difficult to show.

The *Nordby* decision established the value of a non-monetary contribution in the form of labor, but raised several questions. For example, if the wife's labor was strictly domestic — managing the household — as opposed to directly business-related, does she still own half of the inherited property? The Minnesota Attorney General's Office ruled in October that domestic labor did not constitute a contribution in this sense.

It was decided that the principle of business-related labor constituting a contribution would be extended to family-owned businesses other than farms. But the basic provisions of the law remain unchanged: the property must be owned in both names and the survivor must prove a contribution in order to avoid paying inheritance taxes on the entire asset.

If marriage is to be a genuine economic partnership, tax laws must be modified.

The federal estate tax law assumes that in a "qualified joint tenancy," which can be entered into only by spouses, that each spouse owns half of the asset. No proof of contribution is required. If Minnesota's inheritance tax laws were modified to include this provision, women would have more protection whether their contribution was made in the form of money, business-related labor, or homemaking. One proposal goes further in recommending that there be no inheritance tax at all in transfers of property between husband and wife. In this case, all assets are considered to belong to the marriage rather than to the individual spouses. This would be similar to provisions for division of property at the time of a divorce under current state law.

SUMMARY

- *Federal income tax penalizes two-earner couples.*
- *Federal and state child care income tax credits provide some assistance to employed mothers; but these credits may be inadequate, may not provide any assistance to those who need it most, and are treated very differently from other business expenses.*
- *State inheritance tax laws have not recognized marriage as an equal economic partnership, but recent developments in Minnesota may improve this situation.*
- *If marriage is to be a genuine economic partnership, inheritance tax laws must be modified.*

CONCLUSIONS

Most women do not have economic security. Even those who are able to "get by" on their paychecks are often unable to ensure long-term protection. As women continue to earn lower salaries than men, they are at a disadvantage in all economic systems.

Women's work, especially in maintaining a home and caring for children, is undervalued. Financial systems reward work and life patterns which are more characteristic of men than of women. A number of barriers are based on negative assumptions about women's reproductive capacity and longevity. The under-representation of women as employees of financial institutions perpetuates these conditions.

Very little concrete statistical information is available about women's participation in these economic systems. Information collected by regulatory agencies has traditionally focused on fiscal integrity and neglected the data necessary to monitor the treatment of women and other consumers.

INSURANCE

- Differential treatment of women and men in the marketing, availability, and pricing of insurance policies is common in Minnesota.
- Costs related to pregnancy/maternity and conditions of the female reproductive system are often treated differently from other conditions for insurance purposes.
- Marital status, living situation, and occupation as a homemaker are other factors which affect women's access to insurance and the price they pay for it.
- Women are penalized for their longevity in some pension plans but do not receive adequate rewards for longevity in life insurance.
- Although some improvements have been made, women still represent a relatively small proportion of the highly-paid positions and a large proportion of the lower-paid positions in insurance companies.

SOCIAL SECURITY

- Although Social Security is more accessible to women than other forms of financial protection, the system does not adequately address women's needs or recognize the value of women's work.
- The homemaker who is defined as her husband's dependent is vulnerable to arbitrary restrictions especially if she is widowed or divorced.
- Women who have been employed outside the home are likely to receive lower benefits than men and are less able to protect their families through Social Security.
- Women who combine homemaking and paid employment cannot receive benefits based on both kinds of work.
- Single workers and two-earner couples are at a disadvantage under Social Security.

PENSIONS

- In non-government jobs, women are less likely than men to be enrolled in pension plans.
- Women who are enrolled in some type of retirement plan are less likely than men to achieve vested status.
- Pension formulas based on salary and length of service result in smaller benefits to retired women.
- Actuarial assumptions about women's longevity used by private pension plans contribute to lower benefits for women.
- Widows and divorced women have few guarantees of pension survivor benefits, especially in private plans.

INVESTMENTS

- Many women do not have access to the discretionary income necessary for investing; women are less likely than men to begin retirement planning early.

- Some women can benefit from an Individual Retirement Account or a Keogh Plan but these programs provide little protection to the women who need it most — homemakers and women with incomes under $15,000.

- Deferred compensation plans are one option that may be helpful to some women.

- The relatively few women who are able to purchase individual annuities are usually penalized by two-sex mortality tables.

- Other investments and ordinary savings accounts are used by some women for retirement planning, but these methods lack many of the financial advantages in other plans.

CREDIT

- The Equal Credit Opportunity Act of 1975 is a landmark in acknowledging women's rights to equal economic opportunities.
- Although there have been improvements, it is difficult to quantify the impact or to monitor the enforcement of the new law.
- Many women are still unaware of their credit rights.

TAXES

- Federal income tax penalizes two-earner couples.
- Federal and state child care income tax credits provide some assistance to employed mothers; but the credit may be inadequate, provides little assistance to those who need it most, and is treated differently from other business expenses.
- In spite of recent improvements, state inheritance tax laws do not yet recognize marriage as an equal economic partnership.

RECOMMENDATIONS

Women need to be better informed about their need for economic protection and financial institutions need to be educated about the realities of women's lives and the importance of women's contributions. Every effort should be made to eliminate laws and economic practices which discourage personal choices about marital status, child-rearing, and employment status. If marriage is to be an equal economic partnership, homemakers must have some guarantees that their economic status will be as secure as that of their spouses, in proportion to the number of years spent in such service. In all economic practices relating to maternity the underlying principle should be that the father, as well as the mother, bears a portion of the financial burden. It must be acknowledged that society has a stake in its children.

Government regulatory agencies should require all financial institutions doing business in Minnesota to compile data by sex and marital status so that monitoring and enforcement of anti-discrimination regulations can proceed in a more effective manner.

EMPLOYMENT

- Commitments to affirmative action must be strengthened and enforced in both public and private-sector employment, which will automatically improve women's access to economic opportunities.
- The Minnesota Department of Human Rights should work closely with the Insurance Division and with private-sector employers to enforce the rights of pregnant workers.
- Fringe benefits should be made available to part-time and seasonal employees on a pro-rated basis.
- Written affirmative action plans should be required of all financial institutions licensed to do business in Minnesota. The existence and use of these plans should be monitored by auditing staff of the appropriate government agency in the same way as requirements related to fiscal integrity.

INSURANCE

- Discrimination in the availability, underwriting, and pricing of insurance policies and in all terms and conditions of insurance contracts, on the basis of sex, marital status, and occupation as a homemaker should be prohibited. Such laws should be strictly enforced.
- Pregnancy/maternity costs and conditions of the female reproductive system should be covered by insurance policies in the same way as other medical conditions and conditions of the male reproductive system.
- The Minnesota Insurance Division should engage in an active program of consumer advocacy and should encourage insurers to develop and pursue marketing strategies designed to enhance insurance coverage of women. New kinds of insurance products should be developed — such as insuring time and services rather than income in the case of homemakers.

SOCIAL SECURITY

- The provisions of the Fraser/Keys proposal, Equity in Social Security for Individuals and Families, should be adopted by Congress.

PENSIONS

- Additional tax incentives should be created for private-sector employers to provide retirement plans including survivor protections for employees which do not exclude younger workers, lower-income groups, and shorter-tenure employees.
- Actuarial assumptions based on two-sex mortality tables should be eliminated.
- All pension plans should be required to include protection for survivors of employees. Spouses should be notified of and give their consent to decisions about retirement options. Statutory restrictions regarding dependency tests for survivors and exclusions based on length of marriage should be eliminated.

INVESTMENTS

- Homemakers should be considered self-employed persons for purposes of eligibility to participate in a Keogh Plan, or should be allowed to establish and maintain Individual Retirement Accounts as persons who do not have access to other types of retirement plans.
- Two-sex mortality tables should be eliminated from annuity plans.

CREDIT

- The Minnesota Banking Division should engage in an active program of consumer advocacy, informing women of their credit rights. Credit-granting institutions should be encouraged to inform women of their rights and their need for credit in their own names.
- Federal agencies responsible for the Equal Credit Opportunity Act should be given adequate staff and funding to ensure compliance.
- The Minnesota Housing Finance Agency and the Federal Housing Administration should compile data by sex and marital status for persons receiving assistance.

TAXES

- Federal income tax laws should be changed to base taxes on a single table, eliminating tables based on marital status.
- Child care tax credits should be expanded. They should be treated in the same way as other business expenses for parents who need child care in order to obtain paid employment or to pursue an education. Such credits should be refundable for low-income persons who do not pay taxes. Family income limitations should be eliminated.
- State inheritance tax laws should be modified so that all assets held in joint tenancy are considered to be equally shared by both spouses and so that contributions of labor, including homemaking services, are valued.

SOURCES

The following is not intended as a comprehensive bibliography, but as a compilation of the major sources of data for this report.

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ORGANIZATIONS AND AGENCIES

The following agencies and organizations provided information for the research and writing of this report:

American Civil Liberties Union
Banking Division, Minnesota Department of Commerce
Blue Cross and Blue Shield of Minnesota
Federal Reserve Board
Federal Trade Commission
Insurance Division, Minnesota Department of Commerce
Minnesota Department of Human Rights
Minnesota Department of Personnel
Minnesota Department of Revenue
Minnesota Insurance Information Center
Minnesota Legislative Commission on Pensions and Retirement
Minnesota Legislative Reference Library
Minnesota Legislative Research Staff
Minnesota Mutual Life Insurance Company
Minnesota State Retirement System
Northwestern National Life Insurance Company
Office of Congressman Don Fraser
Office of the State Demographer, State Planning Agency
Private Pension Protection Division, Minnesota Department of Labor and Industry
Prudential Insurance Company of America
Public Employees Retirement Association
Teachers Retirement Association
U.S. Department of Labor
Western Life Insurance Company

HEARINGS

Information for this report was also obtained from testimony at public hearings held by the Council on the Economic Status of Women as follows:

January, 1977 — St. Paul
June, 1977 — St. Cloud
July, 1977 — Minneapolis
August, 1977 — Detroit Lakes
August, 1977 — Virginia
September, 1977 — St. Paul
October, 1977 — Marshall
October, 1977 — Rochester
June, 1978 — St. Paul
August, 1978 — Willmar
September, 1978 — Duluth
September, 1978 — Cass Lake

ABOUT THE COUNCIL

PURPOSE

The legislation creating the Council states that its role is to "study all matters relating to the economic status of women in Minnesota, including matters of credit, family support and inheritance laws relating to the economic security of the homemaker, educational opportunities, career counseling, contributions of women to Minnesota's per capita and family incomes and state revenues, job and promotion opportunities, and laws and business practices constituting barriers to the full participation of women in the economy."

In addition, the Council shall also study "the adequacy of programs, services and facilities relating to families in Minnesota including single-parent families and members beyond the nuclear family."

MEMBERS

Twenty-two members serve on the Council: five Senators, five House members and twelve public members appointed by the Governor. Members are:

SENATE
Nancy Brataas, Rochester
Bob Lewis, St. Louis Park
Bill Luther, Brooklyn Center
Allan Spear, Minneapolis
Emily Staples, Plymouth

HOUSE
Linda Berglin, Minneapolis
Stanley Enebo, Minneapolis
Mary Forsythe, Edina
Arlene Lehto, Duluth
Russell Stanton, Arco

PUBLIC MEMBERS
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Virginia Erhard, Minnetonka
Mary Hofbauer, Cass Lake
Maria Kautto, Nashwauk
JoAnn Kronick, South St. Paul
Anne Siren Levig, Cambridge
Verna Lunz, Fairmont
Delores McClernon, Tenney
Sandra Melberg, Minneapolis
Jane Preston, White Bear Lake
Carol Ryan, St. Paul

COUNCIL for the ECONOMIC STATUS of WOMEN

This is the fifth in a series of reports by the Council on the Economic Status of Women,
400 SW State Office Building, St. Paul, MN 55155