

Families Valued

Creating a twenty-first-century social insurance system for today's "juggler families."

In his 1985 book *Family and Nation*, the late Senator Daniel Patrick Moynihan wrote, "No government, however firm might be its wish, can avoid having policies that profoundly influence family relationships. This is not to be avoided. The only option is whether these will be purposeful, intended policies or whether they will be residual, derivative, in a sense, concealed." As Moynihan knew, government policies have real effects on the lives of families, producing often unintended consequences. Sometimes this is the result, as Moynihan implied, of policymakers not fully understanding the scope of their actions. But, just as often, it can be the result of changing patterns within the American family itself. Indeed, over the past generation the American family has changed dramatically, but the policies designed to

KAREN KORNBLUH *founded the New America Foundation's Work and Family Program. She is now policy director for Senator Barack Obama (D-Ill.).*

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mitigate the risks it faces have remained frozen in time, many of them operating on rules developed in the midst of the Great Depression. As a result, the most vulnerable families in the new economy all too often wind up with limited protection in times of need.

Recent efforts to fashion policies to respond to the strains on modern families have focused, for the most part, on providing job-protected leave to help balance work and family responsibilities. After years of partisan wrangling, President Bill Clinton signed the Family and Medical Leave Act (FMLA) in 1993; since then, progressives have focused on expanding the FMLA to more workers, allowing workers to take time off to attend school activities and doctors' appointments, and providing workers with sick leave for their own or a relative's illness.

The FMLA, though overlooked by many opinion-makers, was a breakthrough in updating the American social contract for today's families. It amended the Fair Labor Standards Act of 1938 to allow workers to take time off to care for a new child or a sick relative without losing their jobs. Clinton realized its impact; it was the first law he signed, and he mentioned it in every State of the Union. But the ability to take time away from one's job, while a critical component of modern family policy, is not comprehensive. To give families the security they need to raise healthy, productive members of society, we need also to address the financial risks parents incur just for being good parents—when they take time out of the workplace, require a flexible schedule, or get hit with high health care or child care expenses.

For this, progressives should turn to one of the most important innovations of the last century: social insurance. In the 1930s, progressives established a suite of social insurance schemes to help families share the risks of the industrial economy: the risks associated with the inability of the breadwinner to earn the family income because of old age, death, a temporary layoff, or disability. These social insurance programs continue to provide families essential support. But today we need to create new elements in the social insurance system—as well as reform the protections now in place—to confront the new risks families face. Our current social insurance system—a patchwork of programs put in place over the course of decades—was designed to help nuclear families in which a breadwinner worked one job his entire career while the homemaker cared for the children and any ill relatives. Today's American family and today's workforce are markedly different. Both two-earner and single-parent families operate in a volatile, winner-takes-all economy; families often are expected to raise a younger generation and care for an older one, while saving to prepare for the current one's future; and workers at all skill levels face a career of increased mobility and volatility.

Contrary to what conservatives have argued, Americans do not need to replace social insurance with some version of the private accounts of President George W. Bush's Social Security plan. Rather, they need a way to continue sharing the all-too-real risks families bear as parents across the country attempt to raise kids in a new economy that provides them no margin for error. This should be the central goal of our social insurance system in the twenty-first century.

The Changing American Family

Families in the early twentieth century lived in a transformative period and confronted new challenges analogous to those we face today. In a quickly urbanizing and industrializing society, old patterns of life were breaking down. Many families had left agricultural lifestyles for wage labor in cities, making them dependent on a single breadwinner's earnings. Extended family networks, capable of providing additional economic support for individuals in times of need, were replaced by the rise of the nuclear family. Better public health and health care had increased the lifespan of Americans by ten years from 1900 to 1930.

President Franklin D. Roosevelt responded to these changes, as well as the exigencies of the Great Depression, by creating a series of policies to soften the rough edges of the industrial economy for workers and their families. In addition to employment innovations like the creation of the minimum wage, the 40-hour workweek, and the ban on child labor, he also created a system of social insurance to guard against "the hazards and vicissitudes" of life in the new economy.

Social insurance programs had precedents both at home, where there had been a national system of Civil War pensions, and in Europe, dating back to Bismarck's Germany. While governor of New York, FDR had implemented the first comprehensive system of unemployment relief and an extensive program for industrial welfare. Roosevelt sought a similar program for the entire nation. The result was the Social Security Act of 1935, centered around old age and unemployment insurance (U.I.) programs to prevent catastrophic drops in families' income resulting from old age, widowhood, or cyclical downturns (Disability insurance was added in 1956).

From its beginning, the system combined two competing strands: earnings-based benefits and benefits designed purely to keep families afloat. Social Security's old-age program keyed individual benefits to lifetime earnings, but the benefit structure was progressive: Lower-income workers received relatively more per dollar earned, while higher-income workers received relatively less. In 1939, before it began paying out benefits, Social Security was changed to

provide a spousal benefit—married couples would receive 150 percent of the benefits of a single worker with the same earnings—and a survivor’s benefit for dependent children and spouses. In addition, the Social Security Act contained Aid to Dependent Children, designed to provide aid to needy single-parent households. The family benefits became a central feature of the Social Security program. Even today, the National Women’s Law Center finds 50 percent of people receiving Social Security benefits actually collect these benefits as either a widow or widower, spouse or child of a worker, or a disabled worker—rather than as an individual receiving Social Security benefits based on his or her employment history.

The system was, of course, built around the American family and social assumptions of that particular time. The Social Security family benefits went to spouses, whether they had children or not, because in the 1930s most mothers were in fact wives and only 15 percent of married women were in the paid workforce (and even then they were under pressure to leave to make way for male breadwinners). Wives were ineligible for the benefit unless they remained married for a fixed amount

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of time, in an attempt to prevent women from marrying just for benefits. Even if a former spouse was entitled to a benefit after divorce, it was less than what the worker received, because it was thought that a woman living alone could survive on less than a man (one participant in the debates at that time argued that a woman could do her own housekeeping, while a man would have to eat in restaurants). Single women were assumed to be widows and expected not to work; Aid to Dependent Children provided help to these women as long as they were not married and did not work. To ensure that funds benefited only those with a strong labor-force attachment (not women working for “pin money”), Social Security benefits were keyed to lifetime earnings, and U.I. eligibility was tied to past work history and whether the worker was seeking full-time employment. Moreover, Social Security’s old-age program, Unemployment Insurance, and later Social Security Disability Insurance, were designed for manufacturing workers who would spend 40 hours a week for 40 years working for a single employer; as a result, the programs covered only income interruptions associated with retirement, temporary layoffs, and, later, disability.

The system worked well for the families for whom it was originally designed, keeping the wolf from the door even when an assembly line closed, an injury

occurred, or the breadwinner grew too old to work in the mill. As a result of the old-age insurance program, the official poverty rate for people age 65 and over dropped to 10 percent by 2003, from 35 percent in 1959 (the first year the federal government kept records using a standardized measure of “poverty”). And Social Security is still enormously important to America’s elderly; it accounts for about *90 percent* of total income for both men and women ages 65 and older. It allowed people to start new companies or switch jobs knowing that if the business failed, their families would not be destitute. The system of social insurance has, in short, been one of the most successful government initiatives ever undertaken, demonstrating how Americans can act together to improve the lives of all citizens.

The Rise of Juggler Families

That, however, was then. Today, as years of newspaper stories on mass layoffs, globalization, rising costs of living, and lower real wages make clear, Americans no longer rely on stable careers, nor do they assume that they will earn enough to raise a family on one salary. Americans compete with workers around the world for wages and benefits. In one out of four cases, they are employed in nonstandard positions—temporary, part-time, freelance, contingent, day labor, on-call, or self-employed. They change jobs on average every five years and are unemployed for longer periods than in the past. Employees today are less likely to be offered defined-benefit pensions or sufficient health insurance from their employers; if they are lucky, they get 401(k)s and meager health coverage. The new system is winner-takes-all: Those who have rare and needed assets to sell on the global market can earn large returns, while those who compete against educated workers in India or China or unskilled labor in Malaysia or Mexico fare far less well.

The family has changed as well. Today, 70 percent of all families with children are headed by either two working parents or a single parent who works—the reverse of 1960, when 70 percent of all families had a breadwinner and a full-time homemaker. Fifty percent of marriages end in divorce, and one-third of children are living in single-parent families at any given time. Parents in these new “juggler families” are working more and more hours, but earnings have stagnated, and so the additional income is often needed just to pay the bills. From 1979 to 2000, mothers in median-income, married families increased their hours on the job by half, while mothers in lower-income families increased their hours by between 60 and 70 percent. These families are dependent on the mother’s earnings: Without them, family income would have virtually held steady in the median-income families, and they would actually

have fallen in the lower-income families. Credit card debt has increased for the average family by more than 50 percent over the last decade, while low-income families saw a 184 percent increase in their debt. As Harvard Law School Professor Elizabeth Warren has pointed out, as a result of rising costs of health care, child care, education, and housing, economic insecurity and even bankruptcy rates have increased for these families, despite the fact that the mother is in the workforce.

For these families, juggling to make ends meet and so dependent on the mother's income, time off to care for a sick child or a new baby can result in devastating income interruptions and even job loss. In addition, these workers are often denied the flexibility they need to get home in time for dinner or take off on a sick day. According to a report by the Urban Institute, over half of all workers report having no control over scheduling alternative start and end times at work; half of all workers have no access to paid sick days; and parents with young children and working welfare recipients who need flexibility the most are the least likely to have these benefits. As a result, juggler parents often wind up paying a hefty penalty just to be good parents. They lose jobs as a result of a child's illness; they take part-time, contingent, or other nonstandard jobs; and they sacrifice wages, benefits, and job security if they can't do shift work.

The job interruptions and part-time penalty affect all juggler families, but they put the most pressure on mothers and their kids. Mothers still bear the overwhelming responsibility for childrearing, and as a result they are more likely to wind up in nonstandard jobs or to lose their jobs completely when they stay home with a sick child or refuse overtime to pick up a child at day care. It is no wonder researchers find that, in comparing women in the workforce, those with children earn 10 to 15 percent less than those without. Other disadvantages abound: Women are about 15 percent less likely than men to be offered health insurance directly through their employer, and they constitute a full two-thirds of those who lost health insurance coverage last year. The problem compounds for single mothers—either divorced or never married—as they bear *both* the high economic risks of an inflexible job market *and* the high cost of supporting a family alone.

Shelly Waters Boots of the New America Foundation has summarized some of the negative effects of juggler family life on children. In 2000, nearly one out of every eight couples with children was putting in 100 hours a week or more on the job, compared with only one out of 12 in 1970. The consequences for juggler families are striking: Long work hours have been shown to produce negative maternal attitudes and more negative behaviors from children. When fathers work nights, separation or divorce is about six times higher than for fathers

who work standard hours, while they are three times higher for mothers who work nights. Children's cognitive well-being also may be affected by parents' work hours: Studies have shown that children with parents who work nights or evenings have lower reading and math test scores.

Rather than lessening these costs, outdated benefit and eligibility rules mean that parents who turn down a promotion or take leave to care for a sick child often wind up paying in lost Social Security, unemployment insurance, and disability insurance benefits as well. The result is a large penalty for taking time away from the 24/7 working world to raise children.

A Vision for Reform

In the twenty-first century, parents are more important than ever as the producers of human capital, and families need help smoothing shortfalls in their income at least as much as families did in the postwar period, irrespective of whether they are part-time workers, temporary workers, taking time out of the workplace to care for a family member, or retraining because an employer moved to India. They need income-replacement no less when they take time out or cut back to care for a sick child than the industrial family did when the breadwinner experienced a temporary layoff. And when they have to retrain to enter a new industry, they need help as well. Parents—whether mothers or fathers—and other caregivers who pay a part-time penalty in reduced earnings, job security, and benefits for working flexibly should enjoy some peace of mind knowing that Social Security will be there in their retirement, unemployment insurance will be there if they lose a job even for family reasons, and that the social insurance system values the work of parenting as much as it does a paid job.

This is already the case in other industrial countries, which have structured their retirement systems to provide both a minimum-benefit guarantee (to keep the elderly out of poverty) and an earnings-related benefit. They also grant credit toward the earnings-related benefit for time spent away from the labor force caring for children. As a result, poverty rates are higher in the United States and more unevenly distributed than in most other industrialized countries. In addition, all European countries have provided family allowances to help support families raising children. More recently, in addition to granting parents the right to work part-time or flexibly and public provisions for early childhood education, they have adapted their systems to help juggler families with such programs as paid parental leaves for mothers and fathers.

But the United States has made few concessions to juggler families. To be sure, since 1993 the FMLA has provided job protection for employees of companies with 50 or more employees who take leave to care for a new child or an

ill relative. President Clinton also expanded the Earned Income Tax Credit for low-income working parents and won new child care and after-school funding. In addition, Democrats worked with moderate Republicans to make the child tax credit refundable as part of the Bush tax cuts. But the United States offers no right to even refuse overtime—let alone work a flexible schedule—and only limited, means-tested child care assistance and a small, regressive child care tax credit.

Seventy years ago, the Roosevelt Administration designed its social insurance system to address the real needs of families at a critical time. But the national policies designed to meet the needs of breadwinner-homemaker families in the 1930s are woefully inadequate for contemporary households. America needs to take concerted action to update its policies for a new century and new families. This most definitely does not mean privatizing our existing social insurance system, as the Bush Administration proposed. Instead, we must fix the holes in the existing programs for retirement, unemployment, and disability insurance through which too many of today's families fall. And we must put in place insurance against new risks that will help today's families thrive in the century ahead.

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But what would such reform look like?

First, the Social Security spousal benefit cries out for change. Because the Social Security family benefit is provided to spouses of workers, rather than outright to parents, it leaves out single heads of household who work, pay taxes, and raise children. These parents—mostly mothers—already sacrifice earnings to raise children, so they wind up with less in their own earned benefits. Yet they do not have the option of claiming a spousal benefit instead. In fact, they might even get less in benefits than someone who never works, doesn't pay payroll taxes, and raises no children—but has a working spouse. Eugene Steuerle of the Urban Institute, one of the nation's leading Social Security experts, estimates that a single head of household who works for \$20,000 a year for 40 years and raises her children will get lifetime benefits of about \$95,000 while paying taxes of \$50,000, whereas a nonworking spouse who doesn't raise children but happens to marry someone making \$100,000 a year will receive about \$250,000 in lifetime benefits and pay nothing in taxes.

The system even penalizes married juggler families—in effect, rewarding Ward and June at the expense of Roseanne and Dan (when there are far more

of the latter than the former). Because spousal benefits are keyed to the income of the primary worker, Social Security values childrearing by higher-income families more than childrearing by lower-income families and rewards single-earner families with far more in benefits than dual-earner families that earn the same total income. Steuerle estimates that a couple with each spouse earning \$15,000 annually will get lifetime benefits of about \$177,000, whereas a couple with one spouse earning \$30,000 but paying no more in taxes will get about \$273,000—close to \$100,000 more.

Social Security also denies spousal benefits to those who divorce within 10 years of tying the knot, and it forces couples who divorce after 10 years to split benefits inequitably; the lower-earning spouse receives only the incremental spousal benefit, worth one-half as much as the own-worker benefit that the

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higher-earning spouse receives. Given lower savings and a longer life expectancy, it is apparent why almost one-fifth of all women age 85 and over still have income below the poverty level.

To update this part of Social Security, we should convert the spousal benefit gradually (phasing in for people

in the workforce today, not affecting those who have already retired) to a flat-rate parental benefit (thus unrelated to a spouse's wages). In the case of divorce, the underlying Social Security benefit and the parental benefit should be shared jointly, which would also create a small disincentive for the primary earner to desert his spouse, as well as reduce the mother's double jeopardy.

A second problem with today's rules is that parents are penalized in retirement because Social Security benefits are calculated based on average earnings over the 35 largest-earning years of work. A worker who begins work at 25 and works 40 years to 65 incurs a penalty if he or she reduces earnings for more than five years. These rules apply equally to women and men, but since women with children take more time out of the workplace and pay a part-time penalty when they do work, they earn less over their lifetimes than even women without children. This has the effect of reducing Social Security benefits for mothers. Women received average monthly retirement benefits of \$826 in December 2004, while men averaged \$1,077. It's no surprise that today 63 percent of female Social Security beneficiaries age 65 and older choose their spousal benefit—because it is higher than what their own earned benefits would have been.

Social Security retirement-benefit calculations should be re-jiggered so as not to penalize parents who take time off of work. The years when parents cut

back on work to care for children should not weigh down average earnings for the purpose of calculating benefits. This could be done by allowing parents to subtract from the 35 years any year, up to 10 years, in which they have a child at home.

Third, unemployment insurance must be reformed to accommodate today's families and help them maintain their labor-force attachment. Most states restrict U.I. eligibility to those who meet requirements designed around a breadwinner's job patterns. They provide benefits to workers who quit as a reasonable response to an action taken by their employer but, according to the National Employment Law Project, only 15 states provide benefits to workers who quit for equally compelling family circumstances—such as the requirement to work night shifts when an employee cannot find child care. In addition, 24 states categorically deny U.I. benefits to part-time workers (although nearly one-fifth of American workers are part-time and their wages are subject to U.I. taxes). Many nonstandard workers are misclassified as independent contractors and thus ineligible for U.I. benefits altogether. The result of these and other outdated rules is that the proportion of workers in jobs that even qualify for unemployment insurance who received benefits during a period of unemployment has decreased dramatically, from 80 percent in 1947 to 38 percent in 1995. In response, unemployment insurance should be made available to workers who leave a job involuntarily because of family, those looking for part-time work, and those who have been in the workplace a shorter period of time or are contingent workers. Eligibility should be calculated based on hours worked rather than wage rates.

A New Social Compact

While our current social insurance programs call out for renovation, we also must build anew. Adapting existing programs would help families better navigate retirement, unemployment, and disability, but it is also time we took seriously the new economic challenges that loom in the lives of today's families. Today, the United States is one of only two industrialized countries that does not guarantee paid maternity leave, and, as a result, only 5 percent of workers have access to a job that provides paid leave on the birth of a new baby. Just as before the passage of the Social Security Act, the states have begun experimenting on their own. Five states require employers to have temporary disability programs, which pay benefits to pregnant women. A few others offer low-income families subsidies for infant care. And, in 2004, California became the first state to expand its state disability insurance system to provide paid family and medical leave.

What is needed, though, is a national commitment to mitigating the new risks to the economic well-being of families. Social Security took on the problem of financial vulnerability in old age and won. We have no equivalent commitment to addressing the financial vulnerability of Americans earlier in their lives, before they have had time to save, when they are hit with the exorbitant costs of raising a child at the very same time as they find their earnings and benefits slipping because of their childrearing responsibilities.

We need a new, universal Family Insurance system in America. It would not eliminate the costs of having and rearing children—parents who cut back on work would still receive less in wages, and they would still have to pay for housing, clothes, and education—but it would prevent the more common catastrophic economic disruptions that too often send today's families to bankruptcy court.

Family Insurance would address the very real possibility that income will decline when one parent—or the only parent—stays home with a new child, takes a part-time job to be home after school with a kindergartener, or is forced into a temp job to gain the flexibility to care for a parent with Alzheimer's. Families would be able to draw down benefits to replace earnings lost as a result of taking family and medical leave up to a capped amount, just as they do in retirement. The benefits could replace partial earnings if a worker goes part-time instead of taking full-time leave—including if he or she decides to take part of his or her child leave as reduced leave.

Family Insurance also would encompass the common risk that a family loses health insurance, which is all too often the casualty of a flexible job. In order to allow parents who can't work nights, go part-time, or even stay home access to the same tax-subsidized group health insurance available to full-time workers with employer-provided insurance, Family Insurance would provide a progressive credit to help families buy into the federal employees' group health plan.

Finally, to address the vulnerability that results from the fact that the high costs of raising children hit at the same time as the part-time penalty, Family Insurance would include an add-on account, like the accounts some have proposed for supplementing Social Security. These new Parent Accounts would be a substitute for today's little-known flexible spending accounts, which allow employees to put aside \$5,000, pre-tax, for health care expenses and another \$5,000 for childcare expenses. Flexible spending accounts are available only to employees of participating firms and regressive to boot, whereas all workers could establish new Parent Accounts for the health-, child care-, and education-related expenses of raising a child. The government would match a

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family's pre-tax contributions to the account on a progressive basis (giving a higher match to low-income families and none to high-income families).

These steps—replacing a portion of wages when families take time away from work with a child or an ill relative, providing access to subsidized health insurance for part-time workers, and creating an add-on account to help with the major expenses of raising a child—would provide families the security they need to carry on the critical job of raising our next generation. They could be financed through a combination of a more progressive payroll tax (starting at a higher wage rate and not capped by income) and general revenue to reflect the fact that everyone in society, not just wage-earners, benefits from the work parents do raising the next generation of citizens.

Of course, reforming social insurance cannot be a substitute for continuing the effort to reform employment laws. All workers in the United States should be able to return to their jobs after caring for a new child or a sick relative, take a few days of sick leave, and have the ability to negotiate a flexible schedule. But, after all, FDR did not choose between giving the industrial family new labor protections *and* providing them the ability to share risks. He did both. In a new century, today's families deserve no less. ▀