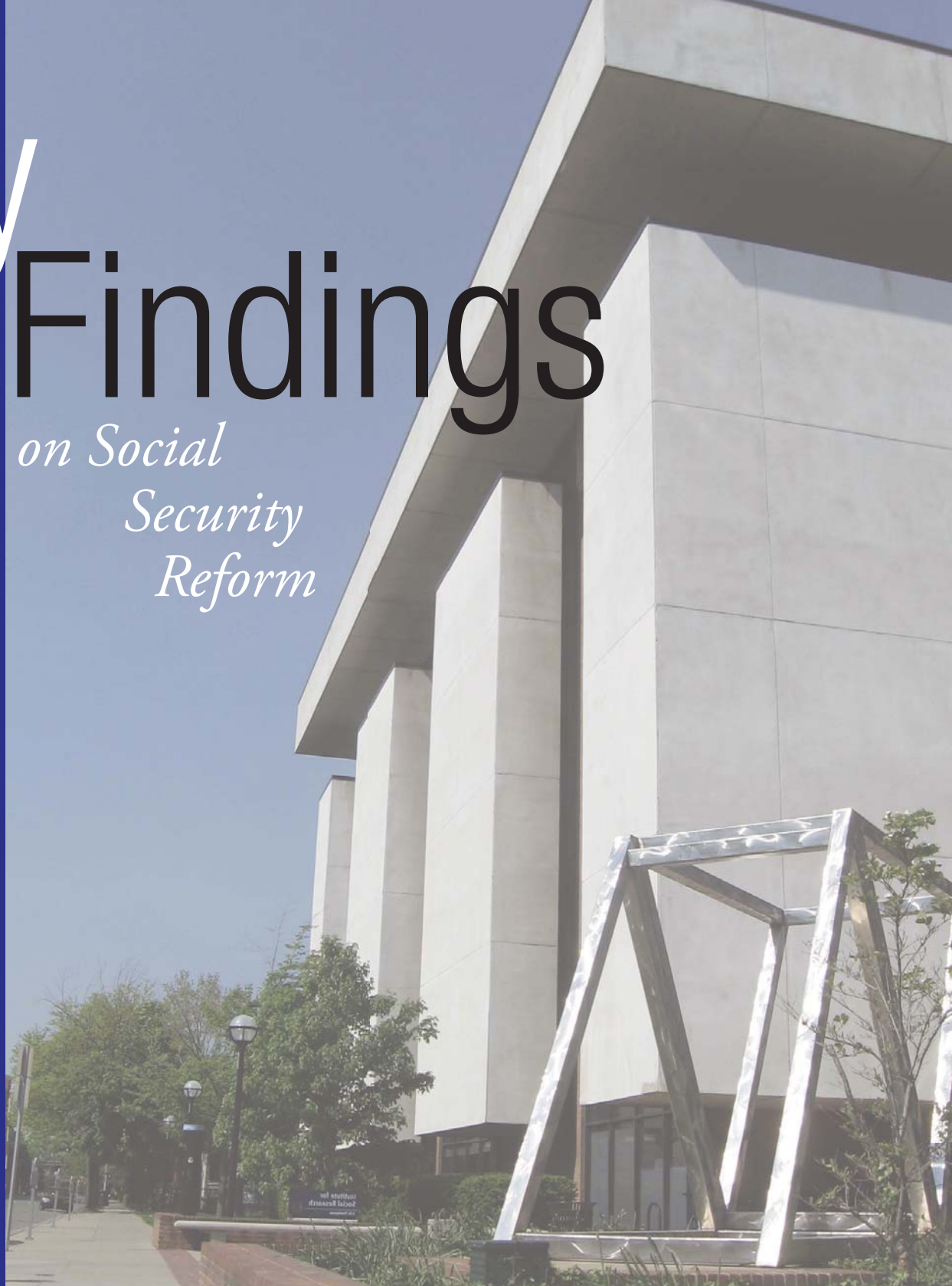


# Key Findings

*on Social  
Security  
Reform*



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# Social Security Reform

Projecting Behavioral Responses to the Next Generation of Retirement Policies by Alan L. Gustman and Thomas L. Steimeier WP 2007-153

- ▶ From age 62 through full retirement age, the earnings test reduces full-time work by married men by about four percentage points, or by about ten percent of married men at full-time work.
- ▶ Abolishing a minimum hours constraint on employment would induce more than twice as many people to enter partial retirement as would leave full-time work.
- ▶ If all benefits from personal accounts could be taken as a lump sum, the fraction not retired at age 62 would fall by about 5 percentage points compared to a system where there is mandatory annuitization of benefits.

Consumption, Retirement, and Social Security: Evaluating the Efficiency of Reform with a Life-cycle Model by John P. Laitner and Daniel Silverman WP 2006-142

- ▶ This study analyzes the effect of a simple reform to lessen the labor-supply distortions of the current Social Security program. After a long vesting period (e.g., 34 years), workers would no longer pay the OASI payroll tax, potentially increasing wages by 10.6 percent.
- ▶ Lost revenue to the system would be made up by a small increase in the payroll tax during the vesting period.

- ▶ Under this scenario, retirement ages could rise by nearly a year and gains to society from the resulting extra income taxes could average \$3,000 per household.

Social Security Privatization with Income-Mortality Correlation by Shinichi Nishiyama and Kent Smetters WP 2006-140

- ▶ This study presents a model with multi-period careers and elastic work hours and shows that it is possible specifically to design a changeover from a PAYGO to account-type Social Security system that leaves no household worse off and some better off. It is possible to arrange the course of reform to elicit labor supplies that are both higher and more efficient during the transition to the new system.

- ▶ When we elaborate the model to include uninsurable (idiosyncratic) earnings uncertainty and mortality risk, the efficiency gains tend, however, to disappear.

- ▶ Switching one half of Social Security taxes to personal accounts no longer yields efficiency gains overall: if we use lump-sum redistributions to equalize gains/losses across households in the simulation, privatization typically yields a net loss per household.

- ▶ Net gains reappear only when benefits to low earners under the residual Social Security system are made considerably more progressive than those of the current System.

A Dynamic Model of Retirement and Social Security Reform Expectations: A Solution to the New Early Retirement Puzzle by Hugo Benitez-Silvas , Debra Sabatini Dwyer, and Warren Sanderson WP 2006-134

- ▶ Workers' uncertainty over future potential benefit cuts helps to explain the puzzle of early Social Security Claiming: because they fear that future benefits might not be there for them, many workers take benefits as soon as they can.
- ▶ Reform that would eliminate the need for future benefit reductions could lessen the problem of early take-up.

The Demand for Guarantees in Social Security Personal Retirement Accounts by Olivia S. Mitchell and Alexander Muermann WP 2003-060

- ▶ This project evaluates how workers might invest their Personal Retirement Account (PRA) funds between safe and risky assets, depending on whether they are offered a rate of return guarantee on the risky asset.
- ▶ Anticipated regret can have a potent effect on investment choices in a PRA. If there is no guarantee, regret induces investors to move away from extreme decisions.
- ▶ With or without regret, a rate of return guarantee provided at no cost to the plan participant induces him to hold more stocks.
- ▶ Investors' willingness to pay for a guarantee rises with the level of the guaranteed return.

Stochastic Forecasts of the Social Security Trust Fund by Ron D. Lee, Michael Anderson, and Shripad Tuljapurkar WP 2003-043

- ▶ A combination of raising the payroll tax to 13.4%, increasing the NRA to 69 by 2024, and investing 25% of the fund in equities by 2015 keeps the expected fund balance positive past 2101 with a 50% chance of solvency through 2077.

Retirement Effects of Proposals by the President's Commission to Strengthen Social Security by Alan L. Gustman and Thomas L. Steinmeier WP 2003-038

- ▶ This project considers Commission proposals that would limit future benefit growth to price inflation, boost minimum benefits, reduce benefits for early retirement, increase benefits for surviving spouses (of low-wage households), or reduce high-bracket Social Security benefits.
- ▶ The first and third reforms could have fairly significant effects. The first leads to substantial reductions in the replacement rate over time, leading to postponement of retirement.

- ▶ We find reductions of retirement at age 62 of about 7 percentage points in 2075. The third reform which penalizes early retirement, can increase labor supply 3-4 percentage points at age 65.

Transition Paths and Social Security Reform by John P. Laitner WP 2002-025

- ▶ An instantaneous switchover from a PAYGO to a funded system is possible, even when the former has been in place for many years, if society raises its national debt to generate funding for the new personal account balances.
- ▶ There need be neither efficiency gains/ losses nor changes in general equilibrium prices. On the other hand, the national saving rate does not improve.

*Key Findings provide highlights from MRRC Working Papers.*

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