



DISCUSSION: CURRENT RESEARCH ON SS REFORMS

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APRIL 2021

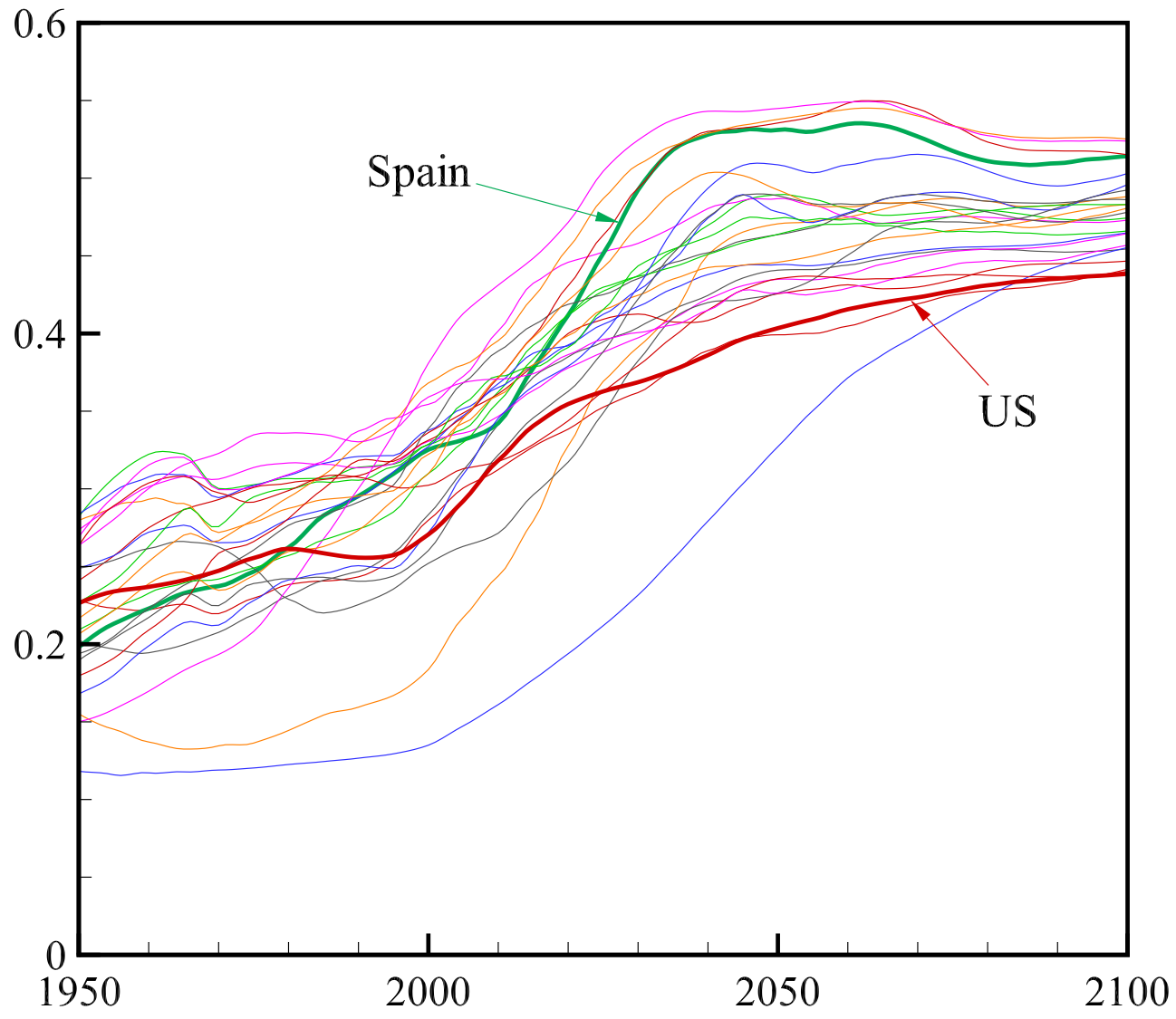


A POLICY CHALLENGE

- Financing retirement consumption with
 - Populations aging
 - Costs per retiree rising
- Current research aimed at
 - Reforming PAYG systems
 - Integrating old- and all-age programs



POPULATION SHARE OF 50+





MAIN LESSONS

- Welfare gains possible with
 - Mandatory savings-for-retirement systems (Larsen)
 - Greater flexibility in contributions (Setty)
 - Better integration of insurance across ages (Sousa)



MAIN LESSONS

- Welfare gains possible with
 - Mandatory savings-for-retirement systems (Larsen)
 - Greater flexibility in contributions (Setty)
 - Better integration of insurance across ages (Sousa)
- But there are some issues to consider...



ARE HOUSEHOLDS SAVING “TOO LITTLE”?

- IRS study:
 - Tracked individuals 55-61 before and after drawing SS
- Found:
 - Most have no reduction in real spendable income
 - Replacement rates typically higher for lower incomes

Source: Brady, Bass, Holland, and Pierce (2017)



WHAT RESOURCES ARE AVAILABLE?

- In US, government benefits as share of GDP:
 - Total: 14.5%
 - Old-age: 8.5% (social security and medicare)
 - Low-income: 5.0% (public assistance)
 - Workers: 0.1% (unemployment insurance)
- If similar in EU,
 - Spend less time studying UI
 - More time on SS and public assistance



TRANSITIONS ARE CRITICAL

- Suppose we want to devise a transition with:
 - Ratio of non-retirement transfers to GDP fixed
 - All birth-cohorts and income groups better off
- How possible?



HOW POSSIBLE?

- In study of US, found the following worked:
 - Phase out payroll taxes faster than SS and Medicare
 - Suspend deductibility of benefits
 - Flatten labor tax schedule
- Which, in turn:
 - Protects retirees who don't gain from lower taxes
 - Provides resources to finance transition
 - Achieves efficiency gains



USING DEBT FINANCING

- Not a panacea:
 - Low interest rates now
 - But not forever

⇒ Unpleasant fiscal arithmetic



SUMMARY

- Current research on the right path:
 - Need better integration of programs for old and poor
 - Need ideas for Pareto-improving reforms
 - Need more study of EU systems



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- Current research on the right path:
 - Need better integration of programs for old and poor
 - Need ideas for Pareto-improving reforms
 - Need more study of EU systems
- Thanks!