



# DISCUSSION: CURRENT RESEARCH ON SS REFORMS

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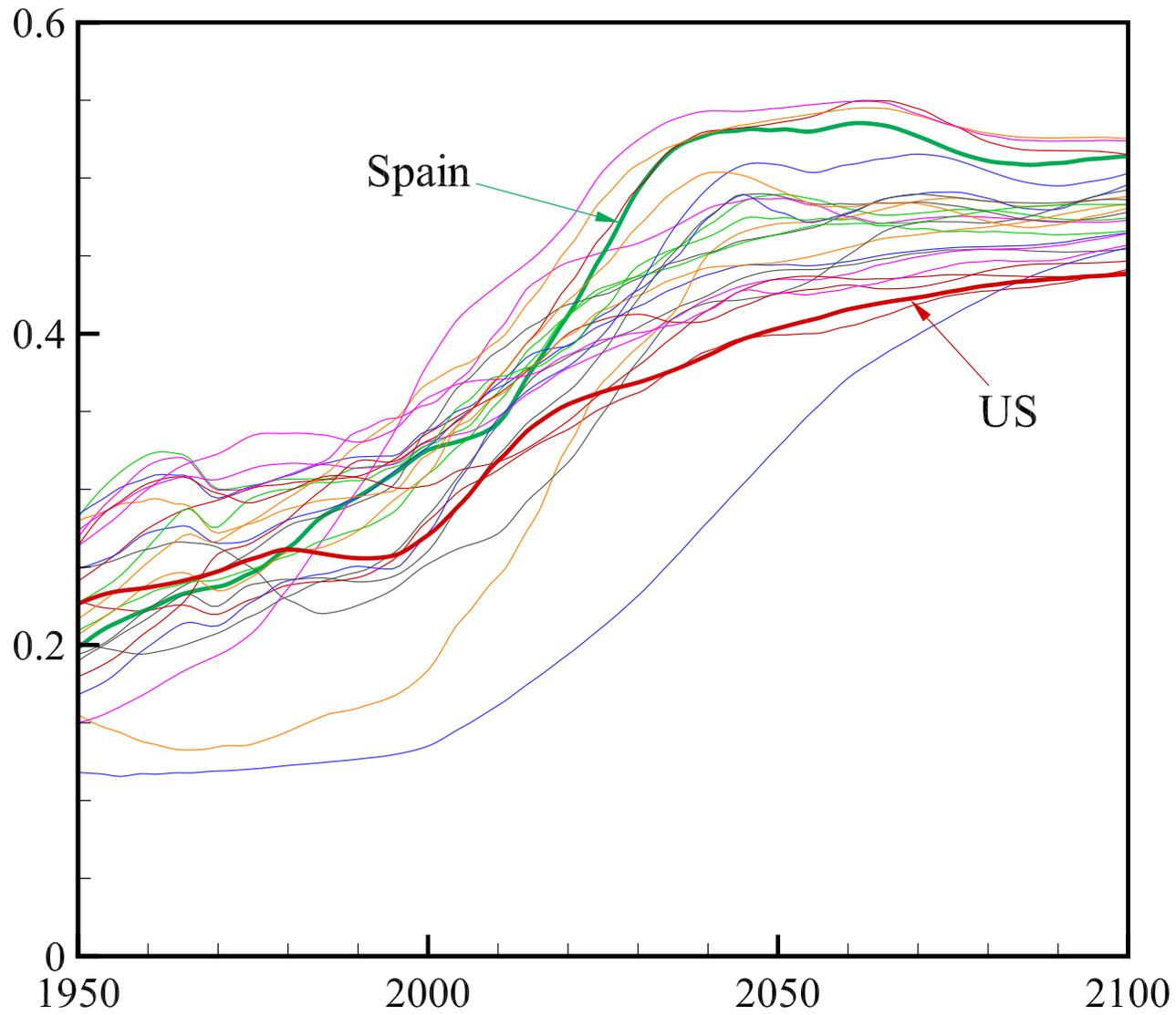


## A POLICY CHALLENGE

- 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)



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- 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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- Thanks!