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Pension Research Council

The Wharton School

University of Pennsylvania

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Philadelphia, PA 19104-6302

# **Prospects for Social Security Reform**

OF AMER

S INSURAN

# THE UNITED STATES OF AMERICA

## THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

Dated: JUNE 30, 1989  
Due: JUNE 30, 2003  
CUSIP: 991071P1

THE SUM OF TWO BILLION TWO HUNDRED FIFTY MILLION DOLLARS (2,250,000,000) IS HEREBY ISSUED BY THE UNITED STATES OF AMERICA IN FULL PAYMENT OF THE PRINCIPAL OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND. THIS BOND IS NOT SUBJECT TO CALL PRIOR TO MATURITY, AND IS REDEMPTIBLE IN WHOLE OR IN PART AT THE OPTION OF THE OWNER, BUT ONLY UPON PRESENTATION AND SURRENDER TO THE BUREAU OF PUBLIC DEBT, DIVISION OF SPECIAL INVESTMENTS. THIS BOND IS NOT TRANSFERABLE AND IS NOT SUBJECT TO TAXES IMPOSED ON THE PRINCIPAL BY ANY STATE OR ANY POSSESSION OF THE UNITED STATES OR BY ANY LOCAL TAXING AUTHORITY.

# THE UNITED STATES OF AMERICA

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# **Prospects for Social Security Reform**

Edited by Olivia S. Mitchell, Robert J. Myers, and  
Howard Young

Pension Research Council  
The Wharton School of the University of Pennsylvania

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Frontispiece: Special Treasury securities, stored in a federal government filing cabinet in West Virginia, represent \$700 billion in Social Security Trust Fund assets. Photo: Jeff Baughan.

Dedicated to the Memory of Shannon Schieber

# Contents

Preface	ix
 <b>I. What Is the Social Security Problem?</b>	
1. An Overview of the Issues <i>Olivia S. Mitchell, Robert J. Myers, and Howard Young</i>	3
2. Measuring Solvency in the Social Security System <i>Stephen C. Goss</i>	16
3. Criteria for Evaluating Social Security Reform <i>Joseph F. Quinn</i>	37
4. New Opportunities for the Social Security System <i>Stephen G. Kellison and Marilyn Moon</i>	60
 <b>II. Assessing the Economic Impact of Social Security Reform</b>	
5. Social Security Money's Worth <i>John Geanakoplos, Olivia S. Mitchell, and Stephen P. Zeldes</i>	79
6. Simulating Benefit Levels Under Alternative Social Security Reforms <i>Gordon P. Goodfellow and Sylvester J. Schieber</i>	152
7. Stochastic Simulation of Economic Growth Effects of Social Security Reform <i>Martin R. Holmer</i>	184
8. Thinking About Social Security's Trust Fund <i>Kent A. Smetters</i>	201

9. Government Guarantees for Old Age Income <i>George G. Pennacchi</i>	221
10. Means Testing Social Security <i>David Neumark and Elizabeth Powers</i>	243
11. Social Security and Employer Induced Retirement <i>Robert M. Hutchens</i>	268
 <b>III. Political and Practical Considerations Regarding Social Security Reform</b>	
12. Compliance in Social Security Systems Around the World <i>Joyce Manchester</i>	295
13. Employer Responses to Social Security Reform <i>Janice M. Gregory</i>	313
14. An Actuarial Perspective on How Social Security Reform Could Influence Employer-Sponsored Pensions <i>Christopher Bone</i>	333
15. An Organized Labor Perspective on Social Security Reform <i>David S. Blitzstein</i>	349
16. Women as Widows Under a Reformed Social Security System <i>Karen C. Holden</i>	356
17. Investment and Administrative Constraints on Individual Social Security Accounts <i>Robert C. Pozen and John M. Kimpel</i>	372
18. Americans' Views of Social Security and Social Security Reforms <i>John Rother and William E. Wright</i>	380
Contributors	395
Index	401



# Preface

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Olivia S. Mitchell

Social security systems play a central role in old-age income support in most countries on earth. The United States is no exception: many older Americans today rely on the nation's old-age scheme for at least half of their retirement income. Yet the U.S. social security system—like those of many other countries—faces prospective insolvency in the not too distant future. Around the time that the baby boom generation retires, social security benefits payable will exceed payroll tax revenue. If system solvency is to be restored, benefits will have to be cut by one-quarter, or taxes raised commensurately. Alternatively, some experts propose privatization of social security, investing some of the funds in private capital markets.

Why does social security face these problems? What types of reforms should policymakers and interested lay people support, and on what grounds? This book offers a road map for those seeking to understand these questions and to evaluate their answers, in the inevitable reform debates that lie ahead. Our goal is to inform policymakers and practitioners charged with restructuring the social security system, in the context of the transition to an aging—and permanently older—society and a more competitive global economic order.

Because we seek a broad readership, the studies contained in this book include perspectives of a wide range of people including economists, actuaries, fund managers, pension experts, labor market analysts, and policymakers. This interdisciplinary approach, we believe, makes the work particularly interesting to both U.S. residents and those from other countries as well, as they seek to redesign old-age systems in their own context.

In bringing the volume to fruition I owe thanks to the support and guidance of the Institutional Members of the Pension Research Council. Many of our members have actively participated in the research, and continue to play a key role in the ongoing policy debate on social security reform.

Council Board members Robert Myers and Howard Young served as co-editors for this volume, and for their help I am most grateful. The Pension Section of the Society of Actuaries and the Society of Actuaries Foundation provided sponsorship for a conference discussing early results; at the University of Pennsylvania, the Wharton School granted the Council financial assistance in the form of a Wharton Impact grant, and the Penn Aging Research Center also offered financial assistance for the work. Joanne Tang is particularly thanked for her excellent help with logistical and other arrangements for the Pension Research Council.

On behalf of the Pension Research Council at the Wharton School, I thank the many contributors and the several institutions supporting the high-quality research culminating in this volume.