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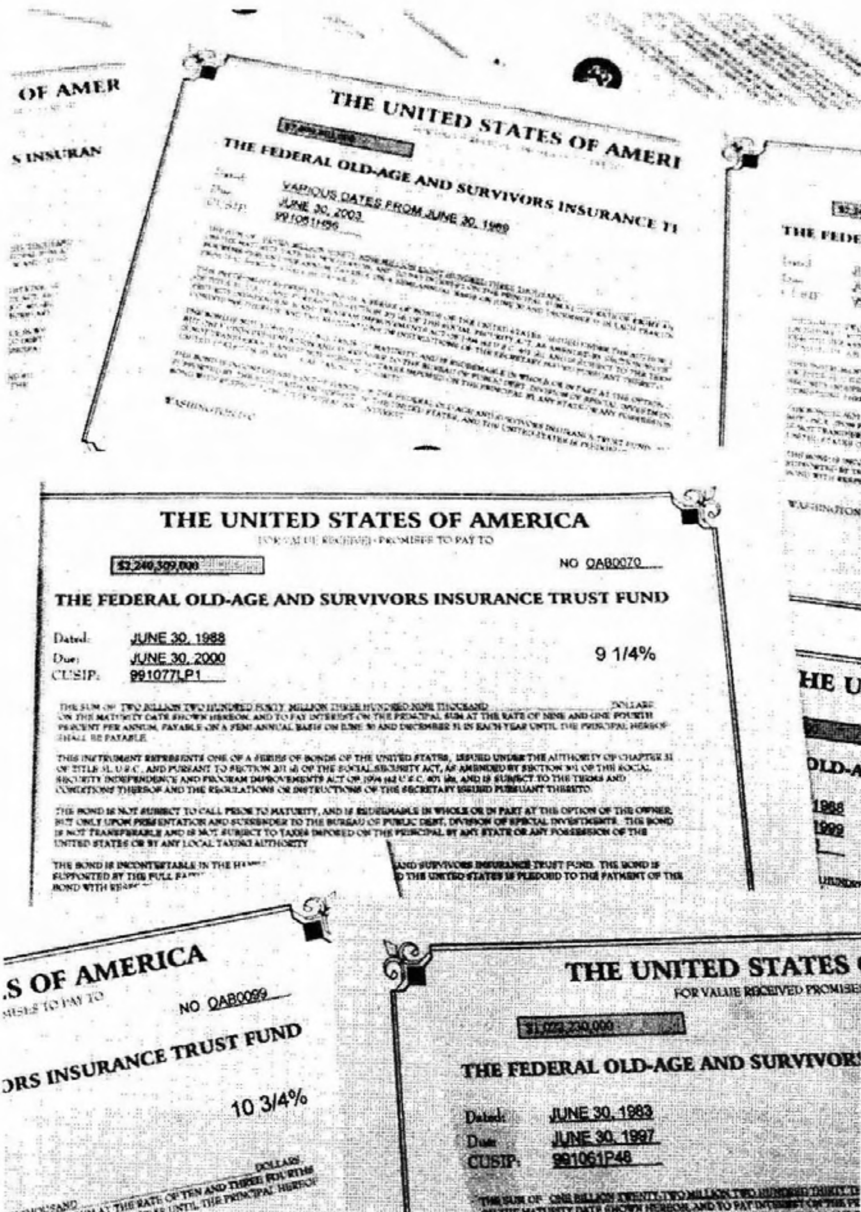
Prospects for Social Security Reform



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CUSIP: 991061P48

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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University of Pennsylvania Press
Philadelphia

Pension Research Council Publications

A complete list of books in the series appears at the back of this volume.

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Printed in the United States of America on acid-free paper

10 9 8 7 6 5 4 3 2 1

Published by
University of Pennsylvania Press
Philadelphia, Pennsylvania 19104-4011

Library of Congress Cataloging-in-Publication Data
Prospects for social security reform / edited by Olivia S. Mitchell, Robert J. Myers, and Howard Young.
p. cm.
"Pension Research Council Publications."
Includes bibliographical references.
ISBN 0-8122-3479-0 (alk. paper)
1. Social security — United States. I. Mitchell, Olivia S. II. Myers, Robert J. (Robert Julius), 1912– . III. Young, Howard, 1932– . IV. Wharton School. Pension Research Council.
HD7125.P733 1998
368.4'3'00973 — dc21 98-41908
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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

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.