

**Discussion of “Addressing Social Security’s
Solvency While Sustaining High Labor
Force Participation”**

**20th Annual Joint Meeting of the Retirement
Research Consortium**

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Research Question

- ◆ OASI Trust Fund is underfinanced in current law
- ◆ Need to reduce benefits and/or increase revenue
- ◆ What are implications on individual behavior of some changes that would eliminate the financial shortfall?
 - *Effect on work after retirement eligibility (age 62) and*
 - *Effect on benefit start (claiming) age*
- ◆ Premises:
 - *Maximize lifetime utility; consumption and leisure*
 - *Change in work is full time only*
 - *5% real discount rate (2% alternative)*

Policy Alternatives Considered (1)

- ◆ Results for raising OASI payroll tax by 2.5 percentage points, from 10.6 to 13.1 percent
 - *Average retirement 1.5 months earlier*
 - *Per capita consumption 2% lower*
- ◆ However:
 - *The higher payroll tax would allow higher benefits, not reflected here: 27% higher in 2034*
 - *What would this do to retirement age? Lower?*
 - *What effect on per capita consumption? Raise*

Policy Alternatives Considered (2)

- ◆ Results for cutting OASI benefits by 18%
 - *Average retirement 3 weeks later*
 - *Per capita consumption 1% lower*
- ◆ However:
 - *No need to reduce benefits until 2034*
 - » *Could cut 21% in 2034 and 26% by 2092*
 - » *So compared to “payable benefits,” this alternative would have lower benefits until 2034 and slightly higher benefits thereafter*
 - *What are the effects on retirement age and consumption?*

Policy Alternatives Considered (1) & (2)

- ◆ Can we associate these?
- ◆ If we compare (1) higher tax relative to (2) lower benefit *as baseline*:
 - *Retirement age is lower by a little over 2 months*
 - *Per capita consumption is lower by about 1%*
- ◆ But if we compare based on 2% real discount rate:
 - *Retirement age is lower by a little under 4 months*
 - *Per capita consumption does not change*

Policy Alternatives Considered (3)

- ◆ Results for eliminating AIME indexing under 60
 - *Average retirement 15 months later!*
 - *No change in per capita consumption*
- ◆ However—is this a plausible approach?
 - *Massive reduction in benefit credit for taxes at young ages—already credited at less than PV*
 - *What are the effects on earnings (reported) for young workers?*
 - » *Labor force participation is already low for young, high for old*
 - *Less effect if older workers work part time*

Some of Our Assumed Behavioral Effects

- ◆ Increase in payroll tax is offset 3-4% by shift in earnings to other compensation
- ◆ Increase in NRA by 3 years (close to 18% cut) increases average retirement age by about 1 year
- ◆ Eliminating retirement earnings test increases earnings and payroll tax revenue for those with partial or no benefit offset, but decreases earnings and revenue for those completely offset due to effect of income boost from receipt of benefit
- ◆ ACA Cadillac tax (and other similar changes to tax treatment) reduces compensation in the form of employer-sponsored group health insurance and raises taxable earnings

Suggestions for Expanding Model

- ◆ Allow for part time work at older ages
 - *A complication, but more realistic—encore careers, etc.*
- ◆ Note that policy alternatives are compared to present law “scheduled” benefits and tax rates
 - *This is not really a possible counterfactual per current estimates*
 - *Consider comparing each policy alternative to payable benefits or some mix of lower benefits and higher taxes*
 - *Allow later claiming without additional work, and vice versa*
 - *Consider more policy options!*