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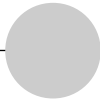
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The Distributional Aspects of Social Security and Social Security Reform



**A National Bureau
of Economic Research
Conference Report**



The Distributional Aspects of Social Security and Social Security Reform

Edited by

Martin Feldstein and Jeffrey B. Liebman

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Preface

The effects of Social Security reform on the distribution of retirement income is one of the most contentious issues in the policy debate about the future of Social Security in the United States. Opponents of shifting from the existing pay-as-you-go (PAYGO) system to one with an investment-based component worry that the ability of the current program to transfer income to the aged poor, or to those who would otherwise be poor in old age, might be lost in such a change.

There is no doubt that the current U.S. Social Security system has substantially reduced poverty among the aged. Although some of the improved incomes of the aged would have occurred nonetheless, through increased private pensions or individual saving, the official Social Security program and the expansion of the companion means-tested Supplemental Security Insurance program have undoubtedly contributed to that improvement.

There is, however, much confusion about the effect of the existing programs on the distribution of income of the aged and about the way that alternative programs would alter that distribution. The current National Bureau of Economic Research (NBER) project was organized to assess various aspects of the impact of Social Security on the distribution of income and wealth and, more explicitly, to measure the way that a shift to a mixed system with a significant investment-based component would affect those distributions.

This project is part of an integrated series of studies that the NBER has undertaken during the past several years to analyze the feasibility and potential consequences of such a reform. We began this work with a general analysis, in *Privatizing Social Security* (edited by Martin Feldstein, 1998) of the issues that arise in the transition from a pure PAYGO system

(such as we have in the United States) to one that includes individual investment-based accounts. That volume contains analytic studies of some aspects of the transition as it might occur in the United States as well as studies of the actual transitions that have occurred in a variety of countries around the world.

John Shoven organized an NBER project on the administrative costs of an investment-based social security system (*Administrative Cost Aspects of Social Security Reform*, 2000), while John Campbell and Martin Feldstein led an NBER project that looked at various risk aspects of the existing Social Security system and of shifting Social Security to investment-based accounts or to mixed systems that include both PAYGO and investment-based portions (*Risk Aspects of Investment-Based Social Security Reform*, 2000). An additional volume, *Social Security Pension Reform in Europe*, will report the results of a project managed by Martin Feldstein and Horst Siebert on the recent European experience and the changes that have been made in most of the countries of western and central Europe.

A large number of NBER researchers, as well as others who are not affiliated with the NBER, have participated in these studies. Preliminary results have been presented and discussed extensively at summer institute sessions and at meetings of the public economics and the aging programs.

The papers in the present volume were presented at a conference in Woodstock, Vermont, in October 1999. Joshua Pollet prepared the summary of the discussion that is included in this volume.

We are grateful to the Ford Foundation for the financial support that made this project possible. We also want to thank the individual members of the NBER staff for their help with the many aspects of the planning and execution of the research, the conference, and the volume. In addition to the researchers and the research assistants named in the individual papers, we want to thank Kirsten Foss Davis, Helena Fitz-Patrick, and Norma MacKenzie for logistical support of the meetings and assistance in the preparation of this volume.

Martin Feldstein
Jeffrey Liebman