

The Market Value of Social Security

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Policy Abstract

The Social Security Administration calculates a number of measures to assess the financial state of the system. This requires assigning a current value to the stream of benefit payments and payroll tax revenues that can be expected in the future. The traditional actuarial approach to making these calculations ignores risk, and assigns an expected value. Private financial markets would value these future costs and revenues differently by adjusting for uncertainty and risk. In exploratory work completed last year, our focus was on the market value of already obligated future benefits. The idea was to value future Social Security benefit obligations in a way that accounts for future risks and uncertainties in a way that investors would do if they regarded these payments as liabilities of their own businesses. In this study, we expand the analysis by estimating the market value for the Social Security system as a whole. We first estimate the market value of Social Security's future expenditures (worker benefits) and receipts (worker contributions obtained from payroll taxes). In addition to already-obligated benefits (the focus of our preliminary work), we consider the full stream of benefits and payroll tax contributions that can be expected in the future. We then construct market-based (i.e. risk-adjusted) estimates of three common measures of Social Security's financial health, and compare these estimates to those obtained using the traditional SSA methods with no correction for the price of risk. Using this market-based approach, and applying risk adjustment empirically, we estimate that the 75-year open group unfunded liability is 30 percent lower than the SSA estimates using actuarial methods.

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