

# **The Market Value of Accrued Social Security Benefits**

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## Policy Abstract

One measure of the health of the Social Security system is the difference between the market value of the trust fund and the present value of benefits accrued to date. However, an important question is how one should evaluate or quantify future Social Security liabilities in current value terms. In this study, we develop a market-based approach. Our aim is to estimate a market value of Social Security liabilities, taking account of future risks and uncertainties in a way that investors would do if they regarded Social Security payments as dividends on assets, or liabilities of their own business. We find that the difference between market valuation and SSA's "actuarial" valuation is large, especially when valuing the benefits of younger cohorts. Overall, the market value of accrued benefits is only  $3/4$  of that implied by the actuarial approach. Ignoring retirees (for whom the valuations are the same), market value is only  $2/3$  as large as that implied by the actuarial approach. We make the case that market value is the more appropriate way to measure both assets and liabilities of the Social Security system, because it adjusts correctly for the uncertainties of the future, rather than applying a risk-free discount rate.