The Distributional Aspects of Social Security and Social Security Reform
MARTIN FELDSTEIN is the George F. Baker Professor of Economics, Harvard University, and president of the National Bureau of Economic Research. JEFFREY B. LIEBMAN is associate professor of public policy at the John F. Kennedy School of Government, Harvard University, and a faculty research fellow of the National Bureau of Economic Research.
National Bureau of Economic Research

Officers

Carl F. Christ, chairman
Kathleen B. Cooper, vice-chairman
Martin Feldstein, president and chief executive officer
Susan Colligan, vice president for administration and budget and corporate secretary

Robert Mednick, treasurer
Kelly Horak, controller and assistant corporate secretary
Gerardine Johnson, assistant corporate secretary

Directors at Large

Peter C. Aldrich
Elizabeth E. Bailey
John H. Biggs
Andrew Brimmer
Carl F. Christ
John S. Clarkeson
Don R. Conlan
Kathleen B. Cooper

George C. Eads
Martin Feldstein
Stephen Friedman
Karen N. Horn
Judy C. Lewent
John Lipsky
Michael H. Moskow

Alicia H. Munnell
Rudolph A. Oswald
Robert T. Parry
Peter G. Peterson
Richard N. Rosett
Kathleen P. Utgoff
Marina v. N. Whitman

Directors by University Appointment

George Akerlof, California, Berkeley
Jagdish Bhagwati, Columbia
William C. Brainard, Yale
Glenn G. Cain, Wisconsin
Franklin Fisher, Massachusetts Institute of Technology
Saul H. Hymans, Michigan
Marjorie B. McElroy, Duke

Joel Mokyr, Northwestern
Michael J. Brennan, California, Los Angeles
Andrew Postlewaite, Pennsylvania
Nathan Rosenberg, Stanford
Michael Rothschild, Princeton
Craig Swan, Minnesota
David B. Yoffie, Harvard

Directors by Appointment of Other Organizations

Mark Drabenstott, American Agricultural Economics Association
Gail D. Fosler, The Conference Board
A. Ronald Gallant, American Statistical Association
Robert S. Hamada, American Finance Association
Robert Mednick, American Institute of Certified Public Accountants
Angelo Melino, Canadian Economics Association

Richard D. Rippe, National Association For Business Economics
John J. Siegfried, American Economic Association
David A. Smith, American Federation of Labor and Congress of Industrial Organizations
Josh S. Weston, Committee for Economic Development
Gavin Wright, Economic History Association

Directors Emeriti

Thomas D. Flynn
Lawrence R. Klein

Franklin A. Lindsay
Paul W. McCracken

Bert Seidman
Eli Shapiro

Since this volume is a record of conference proceedings, it has been exempted from the rules governing critical review of manuscripts by the Board of Directors of the National Bureau (resolution adopted 8 June 1948, as revised 21 November 1949 and 20 April 1968).
Contents

Preface ix

Introduction 1
Martin Feldstein and Jeffrey B. Liebman

1. Redistribution in the Current U.S. Social Security System 11
Jeffrey B. Liebman
Comment: Gary Burtless
Discussion Summary

2. Guaranteed Income: SSI and the Well-Being of the Elderly Poor 49
Kathleen McGarry
Comment: Bruce D. Meyer
Discussion Summary

3. The Impact of Social Security and Other Factors on the Distribution of Wealth 85
Jagadeesh Gokhale and Laurence J. Kotlikoff
Comment: R. Glenn Hubbard
Discussion Summary

4. Social Security and Inequality over the Life Cycle 115
Angus Deaton, Pierre-Olivier Gourinchas, and Christina Paxson
Comment: James M. Poterba
Discussion Summary
5. Long-Run Effects of Social Security Reform Proposals on Lifetime Progressivity  149
   Julia Lynn Coronado, Don Fullerton, and Thomas Glass
   *Comment:* Stephen C. Goss
   *Discussion Summary*

   Jagadeesh Gokhale and Laurence J. Kotlikoff
   *Comment:* David A. Wise
   *Discussion Summary*

7. The Distributional Effects of an Investment-Based Social Security System  263
   Martin Feldstein and Jeffrey B. Liebman
   *Comment:* John B. Shoven
   *Discussion Summary*

   Laurence J. Kotlikoff, Kent Smetters, and Jan Walliser
   *Comment:* James E. Duggan and David W. Wilcox
   *Discussion Summary*

9. The Economics of Bequests in Pensions and Social Security  371
   Martin Feldstein and Elena Ranguelova
   *Comment:* Jonathan Skinner
   *Discussion Summary*

10. Differential Mortality and the Value of Individual Account Retirement Annuities  401
    Jeffrey R. Brown
    *Comment:* Andrew A. Samwick
    *Discussion Summary*
    *Appendix: Estimating Life Tables That Reflect Socioeconomic Differences in Mortality*  447
    Jeffrey R. Brown, Jeffrey B. Liebman, and Joshua Pollet
    Contributors  459
    Author Index  461
    Subject Index  465
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