
Subject Index

- Aaron-Reischauer reform proposal, 165t, 168–70, 173t, 175–77, 180–83, 202–3
- AIR. *See* Assumed interest rate (AIR) of annuity
- Annuities: assumed interest rate (AIR) of, 431–32, 441; double life, 387–88; insurance aspect of, 415–17; internal rate of return valuation of, 418; joint and survivor, 428–29, 437; life annuity contract with individual savings account, 401; measures of valuation and distribution, 417–19; money's worth measure, 417–20; money's worth of joint and survivor, 429–31; money's worth of real and nominal, 420–21; money's worth with period-certain options, 425–26; monthly income from life annuity options, 424–25; nominal, 441; payments with separate prices for group-specific mortality, 435–36; period-certain, 77, 441; PRA postretirement, 381–82; of private pension plans to surviving spouses, 386; refund options to annuitants, 427–28; residual balance, 384t, 386; Social Security benefits as, 215; value of fixed nominal or real, 431
- Annuitization: partial, 37, 86, 443; in payout phase of individual savings accounts, 415–16, 437; of personal retirement accounts, 287, 292; of resources of elderly in postwar period, 85, 88
- Annuity markets: period-certain options in, 423–27; pricing of annuities in United States, 435
- Arizona Governing Committee v. Norris* (1983), 416n9
- Assumed interest rate (AIR) of annuity, 431–32, 441
- Average indexed monthly earnings (AIME): computation by Social Security Administration, 161; as measure of lifetime income, 21–30, 43; from Social Security benefit formula, 16, 161
- Benefit formula, Social Security: AIME and PIA derived from, 16, 161, 334; immigrants benefit from, 30; OASI policy under current, 234, 240, 251; proposed modification of, 38
- Benefit levels: comparison of mixed plan and PAYGO Social Security, 296–300; comparison of mixed plan with lower return and Social Security, 311–13; comparison of PRA accounts and Social Security, 276–83; comparison of PRAs with lower returns with Social Security, 307–11; effect of different mortality rates on Social Security, 34; maintenance of current, 267–71
- Benefits: AIME and PIA in benefit formula calculation, 334; based on OASDI payroll tax, 275–83; calculation of OASI, 221; comparison of PAYGO and PRA

- Benefits (*cont.*)
 individual, 283–87; Economic Security Planner benefit calculator, 210–21, 251; impact of potential OASI alternative reform proposals, 249–51; NCRP plan cuts in, 165–68; proposed in Aaron-Reischauer reform plan, 165t, 169–70; ratio of PRA to current Social Security, 280–81; unannuitized, 434–35. *See also* Prefunding of future Social Security benefits
- Bequest rules: postretirement, 8, 382–84; residual balance bequest, 386
- Bequests: altruistically-motivated, 88–89; annuitizations reduce, 85; annuity payment effect on postretirement, 382, 392–93; effect on annuities of postretirement, 381–86; effect on annuity payments of preretirement, 377–81, 392, 437; macroeconomic consequences of, 390–92; postretirement to nonspousal heirs, 387–89; of PRA balance, 292; residual balance method to calculate, 387; to spouses, 386–87; unintended, 88
- City of Los Angeles v. Manhart* (1978), 416n9
- Consumer Price Index (CPI): downward revision under NCRP reform plan, 168; as nominal wage index, 233, 249, 251
- Consumption inequality. *See* Inequality of lifetime consumption
- CORSIM microsimulation model, 210–21
- Current Population Survey (CPS), 56, 447
- Data sources: analysis of investment-based social security, 264–66, 271–74, 319–21; analysis of redistributive effects of Social Security and reform proposals, 151–52, 155–63; Asset and Health Dynamics among the Oldest Old (AHEAD), 53; Continuous Work History Sample (CWHHS), 364; CORSIM simulated data, 208, 210–21, 251, 253–54, 257; Current Population Survey (CPS), 56, 447; Master Beneficiary Record (MBR), 364; microsimulation model, 271–72; National Longitudinal Mortality Survey (NLMS), 404–5, 407–10, 447–48; PSID to calculate lifetime earnings, 86–87, 95–97; Social Security Earnings Records (SERR), 41; Social Security's Average Wage Index, 185, 186; SSA Master Earnings File, 364; Survey of Income and Program Participation (SIPP), 41, 322; 1960 U.S. Census Public-Use Microdata Sample, 210
- Discount rates: of future net benefits, 231–32; lifetime net tax rates sensitive to choice of, 241–42; in measurement of income-related redistribution, 34–35; redistribution from Social Security, 27–30
- Feldstein-Samwick reform proposal, 164–66, 172–76
- Greenspan Commission (1983), 232
- Income: inequality under permanent income hypothesis, 117–25; lifetime income measures, 21–22; PSID to calculate lifetime, 95–97; transfers from Social Security, 36
- Income distribution: different mortality rates affect, 32–34; indirect effects of Social Security on, 5; levels of income-based, 32–36; for the poor in absence of SSI, 60–61; in pure prefunding system, 274
- Income redistribution: in current U.S. Social Security system, 22–36, 149; income-related, 34–36; intra- and intercohort, 15–17; lifetime net tax rate as measure of, 20; sources of intracohort lifetime, 15–17; unintended, 442
- Individual retirement accounts (IRAs): prefunding system of, 274–87; proposal for reform of Social Security, 76. *See also* Personal retirement accounts (PRAs)
- Individual savings accounts: accumulation phase, 410–15; annuitization mandate under, 37; described, 401; life annuity contract with, 401; payout phase, 415–35; redistribution levels, 37–38, 402; role for variable annuity products, 431
- Inequality of lifetime consumption: under DB Social Security system, 144–45; in different Social Security systems, 132–36; effect of interest rate distribution on, 140–42; effect of Social Secu-

- rity on, 145; factors reducing and increasing, 144–45; in life-cycle model without bequests, 6; under permanent income hypothesis, 117–25; preretirement increase in, 145; programs reducing, 144
- Inequality of wealth: annuitization and Social Security increases, 111–12; role of inheritance and Social Security in, 104–6, 111
- Internal rates of return: under alternative OASI policies, 243–445; calculation for individuals, 292; comparison of mixed plan and PAYGO Social Security, 300, 305; comparison of PRAs and PAYGO Social Security, 293–96; as income redistribution, 19–21, 24, 26–28; paid by OASI, 224–25t, 230–31, 243; of PRAs with lower return compared to Social Security, 307, 310–11
- Investment: model of uncertain returns to, 375–77; risks in proposed PAYGO plus investment-based system, 306–16
- Life expectancy: conditional, 409–10; in differences for men and women in United States, 21, 403; of higher-income individuals, 16; relation to educational levels, 215
- Lifetime net tax rates: by benefit quintiles, 222–23t, 229–30; under existing OASI system, 229–30; under OASI alternative policies, 242–43
- Mortality: differences across socioeconomic groups, 18, 403–6, 437; indifferent, 407–10; impact on redistribution from Social Security, 30–31; offset to effects on redistribution, 38; race and ethnic differences in rates of, 404; rates among Hispanics, 404–5; rates for females compared to males, 403
- Mortality rates: assumptions in extension of tables, 190; factors influencing, 212–18; income-differentiated, 157–59; for males and females by race, ethnicity, and education, 447–51
- Moynihan reform proposals, 165t, 170–82, 202–3
- National Commission on Retirement Policy (NCRP) reform proposal, 165–68, 173–76, 202–5
- National Longitudinal Mortality Survey (NLMS), 18, 404–5, 407–10, 447–48
- Net present values: comparison between PRAs and PAYGO Social Security system, 293–96; comparison of mixed plan and PAYGO Social Security, 300, 305; of PRAs with lower return compared to Social Security, 307, 310–11
- Normal retirement age (NRA): under proposed OASI alternative policy, 233, 240, 249, 251; when disabled worker reaches, 200
- Old-Age, Survivors' and Disability Insurance (OASDI): insurance components financed by OASDI tax, 42; predicted rise in payroll tax, 1–2, 4–5; treatment of postwar Americans, 221–31
- Old-Age and Survivors' Insurance (OASI): aids poor postwar Americans, 229; effect of choice of discount rate on projections for, 241–42; financial dilemma, 231–33; impact of reforms on average benefits, 249–51; impact of reforms on lifetime net tax rates, 235–41; impact of reforms on wealth tax rates, 245–49; as insurance policy, 207, 228; internal rates of return paid by, 224–25, 230–31; 224–25t, 230–31; lifetime net tax rates, 222–23, 229–30; present value imbalance of, 231–32; wealth tax rates levied by, 226–27, 231
- Old-Age and Survivors' Insurance (OASI) alternative policies: accelerated increase in NRA (3), 235, 240, 245, 249; CPI as nominal wage index (4), 233, 249, 251; current benefit formula with growth of PIA bend points (7), 234, 240, 251; under current PAYGO system, 208; cuts in OASDI benefits (2), 233, 245, 249; different impacts on lifetime net tax rates, 235–41; effect on internal rates of return, 243; elimination of ceiling on taxable earnings (8), 234, 240, 251; implicit wealth tax rates under, 245–49; increased years used to computed AIME (10), 234, 241, 251; maintenance of current benefit formula (5), 234, 251; OASI payroll tax increase (1), 233, 242, 245, 249; stabilize real per capita benefits (6), 234, 240, 242, 243, 245, 251; tax collection without earnings ceiling (9), 234, 240, 242–45, 249

- Old-Age and Survivors' Insurance (OASI)
Trust Fund: benefits to deceased worker's spouse and dependents, 162; disabled workers receiving benefits from, 200; payroll tax portion paid directly to, 160; retirement benefits for covered workers, 162
- Old-Age Insurance (OAI): conversion of Disability Insurance pension, 42
- PAYGO (pay-as-you-go) pension system:
with addition of investment-based component, 263–67; comparison between net present value of PRAs and, 293–96; comparison of mixed plan with internal rates of return, 300, 305; comparison with mixed plan of net present values, 300, 305; distributional impact of change from, 7; implicit rate of return of, 269–70; internal rates of return compared to PRAs, 293–96; plus investment-based system, 296–305; uncertainties in, 3
- Payroll tax, Social Security: comparison of PAYGO OASDI and PRA prefunded system, 275–83; components of FICA, 159–60; employer and employee shares of, 159–60; progressivity of OASDI, 42–43; proportion borne by worker, 160; regressivity of, 197–98; rise needed to meet OASDI budget balance, 232–33; separate trust funds for components of, 159–60; with voluntary privatization, 347
- Pension systems, investment-based: administration of, 3–4; as alternative to PAYGO system, 3; annuity payment options, 383; critics of, 264; mixed with PAYGO system, 7; risk of benefit reduction, 307
- Pension systems, United Kingdom: income withdrawal option, 432; partial annuitization option, 435
- Permanent income hypothesis (PIH), 117–25
- Personal retirement accounts (PRAs): annuities during retirement, 373–74; balances annuitized at retirement age, 287, 292; bequests in investment-based, 372–73; comparison between net present value of PAYGO system and, 293–96; comparison of benefit levels with Social Security, 276–83; internal rates of return compared to PAYGO Social Security, 293–96; model of uncertain investment returns, 375–77; postretirement annuities, 381–82; real rate of return on prefunded, 275–83; redistributive funding of, 316–18; saving rate required to stabilize payroll tax rate, 393
- Poverty gap: defined, 59; SSI reduces, 72, 77–78, 80; with and without Supplemental Security Income, 59–61, 72, 77–78
- Poverty rates: decline in U.S. levels, 49; for different Social Security systems, 136–38; U.S. thresholds, 46n1
- PRAs. *See* Personal retirement accounts (PRAs)
- Prefunding of future Social Security benefits: advantages of, 275; concept of, 267–69; cost of, 268; effect on cost of financing future Social Security benefits, 269–70; rate of return earned through, 268; reduction of PAYGO tax rate by, 269; replacement of PAYGO system with individual accounts, 274
- Primary insurance amount (PIA): calculation by Social Security system, 161–62; defined, 16
- Privatization of Social Security: choice of tax used to, 339–47; with flat benefit, 343t, 345–46t, 350–52; macroeconomic effects, 335f, 340–42; phasing out of Social Security benefits, 339; with progressive matching government contribution, 343–45t, 352–54; reform proposals for complete, 164–66; simulations to finance transition, 339, 348–50; voluntary, 347–54; welfare and distributional effects, 335f, 340–47; welfare effects using wage-tax finance, 345–46t, 357–58
- Progressivity: of OASDI payroll tax, 42–43; of Social Security benefit formula, 30; of U.S. Social Security system, 22–23, 149–51, 406; ways to assess, 197–99
- Redistribution: in current Social Security system, 22–31; different mortality tables yield outcomes, 31; internal rate of return as, 19–21, 24, 26–28; net transfer received from Social Security, 20; in retirement portion of Social Security, 18; from U.S. Social Security

- system (1998), 12–17, 36. *See also* Income redistribution
- Retirement: consumption inequality after, 133–36; normal retirement age (NRA), 200, 233, 240, 249, 251; postretirement bequest rules, 8, 382–84; poverty rates in, 136–8; PRA postretirement annuities, 381–82, 392–93; preretirement bequests, 377–81, 392, 437. *See also* Personal retirement accounts (PRAs)
- Retirement, early: incentives under current Social Security system, 5; NCRP plan raises, 165t, 167
- Social Security actuaries, ANYPIA program, 221
- Social Security Benefit Calculator (SSBC), 210–21, 251, 253–54
- Social Security reform: Aaron-Reischauer proposal, 165, 168–70, 202–3; affects redistribution in retirement portion of, 18–19; Feldstein-Samwick privatization proposal, 164–66, 172–76; long-run distribution impacts of, 172–78; Moynihan proposals, 165, 170–78, 202–3; NCRP proposal, 165–68, 173–76, 202–5; previous NBER studies of, 2–4
- Social Security system: with added investment-based system, 4–5; annual redistribution (1988), 13–16; benefit calculations under, 160; benefits formula, 4, 5, 11, 16, 149; comparison of benefits levels with PRA accounts, 276–83; cutting benefits to avoid payroll tax increases, 4; effects on income distribution, 5; gaps in protection provided by, 4; income transfers from, 36, 39; as insurance against longevity risk, 19; literature on redistributive effects of, 152–54; literature related to treatment of participants, 209–10; long-run distributional impact of reform, 172–78; long-term funding problem of, 208; payroll tax increase under current system 4; prefunding of future benefits, 267–74; prefunding of investment-based, 267–71; progressivity of, 22–23, 149–51, 406; redistribution according to original design, 4, 44–46; relationship between SSI and, 75–77; simulated demographic transition under current policy, 356–57; simulation of those remaining in old, 347–48; voluntary exit from, 347–50. *See also* Privatization of Social Security; Supplemental Security Income (SSI)
- Social Security Trust Fund: investment portfolio of, 261
- Supplemental Security Income (SSI): analysis of distributional aspects of, 53; benefits and participation under current system, 65–66; characteristics of participants, 55–59; correlates of nonparticipation, 61–63; effect of alternative eligibility guidelines for, 66t, 70–72; effect on poverty rate of poorest elderly, ix, 59–60, 77–78; eligible nonparticipants, 61–63; guaranteed income, 50–52, 80; impact of alternative eligibility on poverty gap, 72–73; income and asset eligibility, 50–55, 81; nonparticipation, 80, 82; participation rates, 52, 55, 83–84; raising guarantees to poverty line, 68–69; redesign of eligibility guidelines, 66–70; spending levels, 80, 83, 326; state-level supplemental benefits, 6, 51, 68–69; as supplement to Social Security benefits and PRA annuities, 285–91, 324; underreporting in AHEAD data, 81–82
- Tax rates: to improve Social Security financial imbalance, 231–41; lifetime net, 20, 222–23t, 229–30, 235–43, 254–56; OASI equivalent of wealth, 221, 226–31; payroll, 263–65, 269–70, 393; wealth, 221, 226–31, 245–49, 254–59; for wealth under alternative OASI policies, 245–49
- Wealth: accumulation under Social Security, 4; effect of inheritance on distribution of, 104–5. *See also* Inequality of wealth
- Wealth distribution model: calibration, 89–99, 110; simulations, 99–105