

Social Security (Old Age Insurance)

Social Security

- ▶ (Note: I'm just going to call Old Age Insurance “Social Security”)
- ▶ Social Security Rationale:
 - ▶ Longevity is uncertain
 - ▶ Working during old age is difficult (transfers to needy)
 - ▶ Saving large sum in case you live extra-long is costly
 - ▶ Annuities market plagued by selection
 - ▶ People do not save enough on their own – need to compel them to save more

Social Security

- ▶ Social Security Rationale (additional):
 - ▶ Elderly parents can become a burden on adult kids if they do not have enough savings or cannot live independently
 - ▶ And what about elderly parents with no living children?

Social Security

- ▶ Social Security History:
 - ▶ 1935: Social Security Act Passed (age 65 and up)
 - ▶ 1939: Survivor benefit (spouse and minor children)
 - ▶ 1940: First check issued (Ida May Fuller, \$22.54)
 - ▶ 1950: First Benefit Increase (77% COLA)
 - ▶ 1961: Early retirement lowered to 62
 - ▶ 1975: Automatic COLAs

Social Security

- ▶ Social Security Eligibility:
 - ▶ Earn at least 40 Social Security credits
 - ▶ Up to 4 credits in year with at least \$6,040 in covered earnings

Social Security

- ▶ Social Security Benefits:
 - ▶ Calculate PIA from AIME (highest 35 years of earnings)
 - ▶ Same progressivity as SSDI
 - ▶ “Full Retirement Age” (FRA) is 67 for those born 1960 and after
 - ▶ Can begin claiming Social Security at age 62 (early) but at a reduced rate:
 - ▶ Monthly benefit lowered by $\approx 30\%$ if claimed at 62
 - ▶ Can delay claiming past FRA and monthly benefit increases (only until turning 70)
 - ▶ Monthly benefit increased by $\approx 24\%$ if claimed at 70

Social Security

- ▶ Social Security Benefits:
 - ▶ Spousal Benefits:
 - ▶ A spouse can either claim on their own earnings history or on their spouses earning history
 - ▶ If spouses, they receive 50% of the benefit level
 - ▶ When spouse passes away, this increases to 100% of the benefit level
 - ▶ A divorced spouse can claim on your earnings if they are unmarried and you were married for at least 10 years
 - ▶ Children under 18 can receive survivor benefits if parents qualified for social security

Social Security

- ▶ Basic Economics:
 - ▶ Consumption/Saving over the life-cycle
 - ▶ Work during younger years
 - ▶ Wages increase while skills accumulate
 - ▶ Save during younger years
 - ▶ Retire and spend down wealth in older years

Social Security

- ▶ Lets Look at some data:

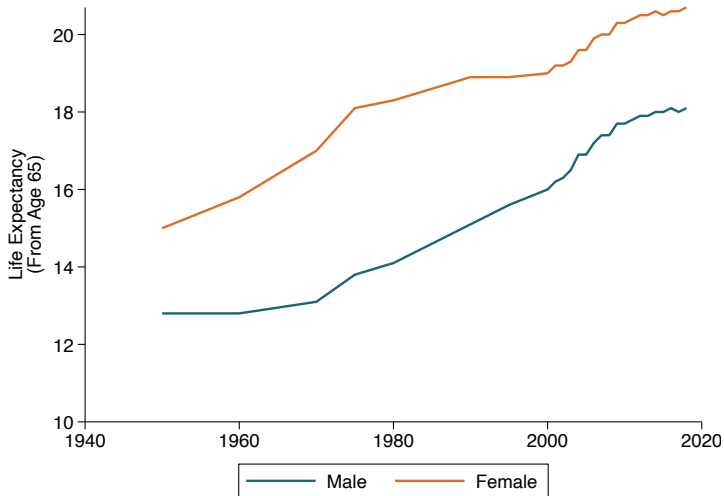
Social Security

- ▶ Lets Look at some data:
- ▶ But first I want you to think/guess at some trends
- ▶ How have the following evolved over time (by age):
 - ▶ Longevity
 - ▶ Labor Force Participation
 - ▶ Income
 - ▶ Wealth

Social Security

- ▶ Life Expectancy Has Increased:

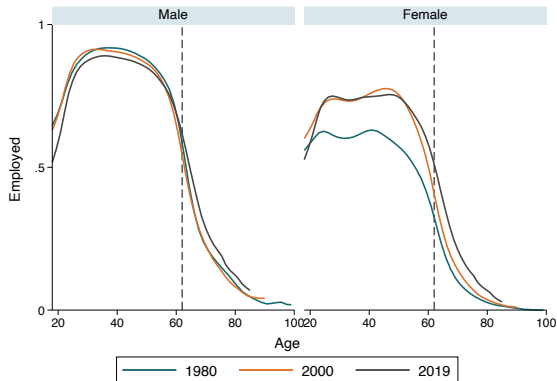
Life Expectancy (from age 65)



Social Security

- ▶ Employment has shifted:
 - ▶ Less while young
 - ▶ More while old
 - ▶ Differences by sex

Life Expectancy (from age 65)



Social Security

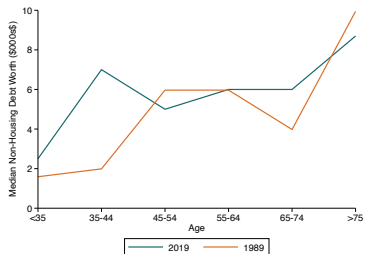
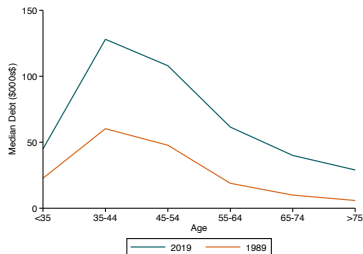
► Income Profile Over Life-cycle:



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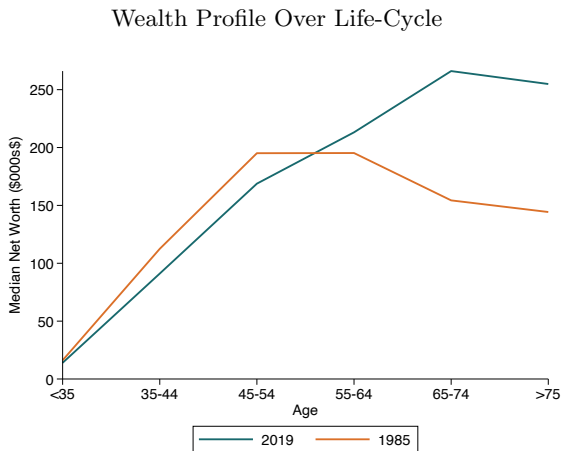
► Debt Profile Over Life-cycle:

Total Debt Profile



Social Security

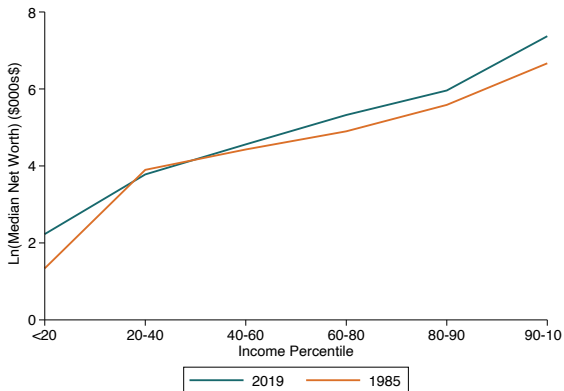
► Wealth Profile Over Life-cycle:



Social Security

► Wealth Profile Across Income Distribution:

Wealth Profile Over Life-Cycle



Social Security

- ▶ Policy Questions:
 - ▶ How Progressive is Social Security?
 - ▶ PAYGO? Private accounts?
 - ▶ Effect on savings rates?
 - ▶ COLA determination?
 - ▶ What does well-being of elderly look like? Is social security enough?

Social Security

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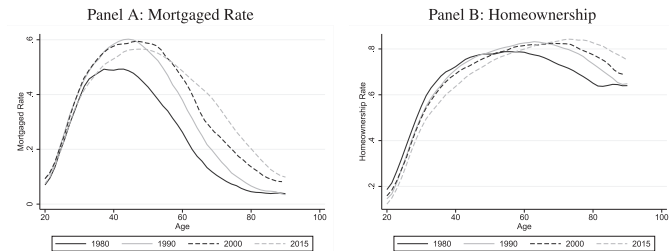
Social Security

- ▶ Lets take a look into well-being or consumption

Social Security

- ▶ Lets take a look into well-being or consumption
- ▶ Homeownership changes:

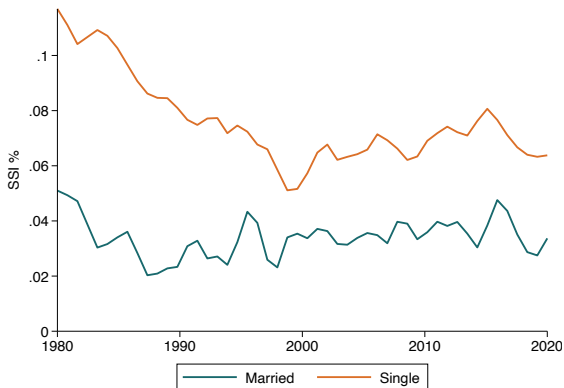
Homeownership Life-Cycle



Social Security

- ▶ Lets take a look into well-being or consumption
- ▶ SSI Rates (by marital status):

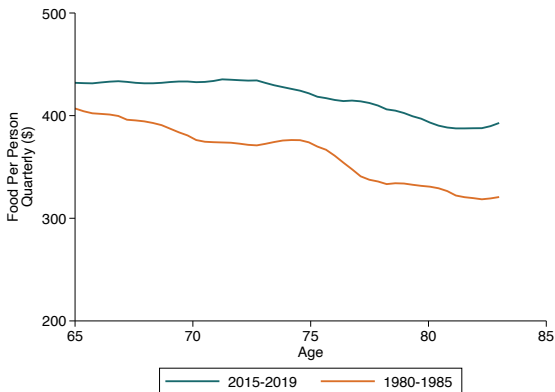
SSI among Elderly



Social Security

- ▶ Lets take a look into well-being or consumption
- ▶ Spending – Food:

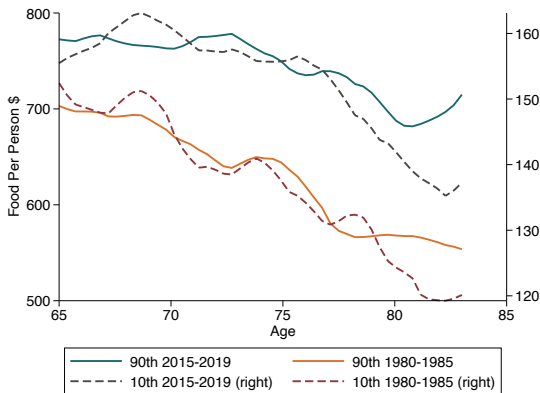
Food Spending Among Elderly



Social Security

- ▶ Lets take a look into well-being or consumption
- ▶ Spending – Food:

Food Spending Among Elderly



Social Security

- ▶ Lets take a look into well-being or consumption
- ▶ Spending – Entertainment:

Entertainment Spending Among Elderly

