

What Will the Elderly Need in Retirement? A Comment

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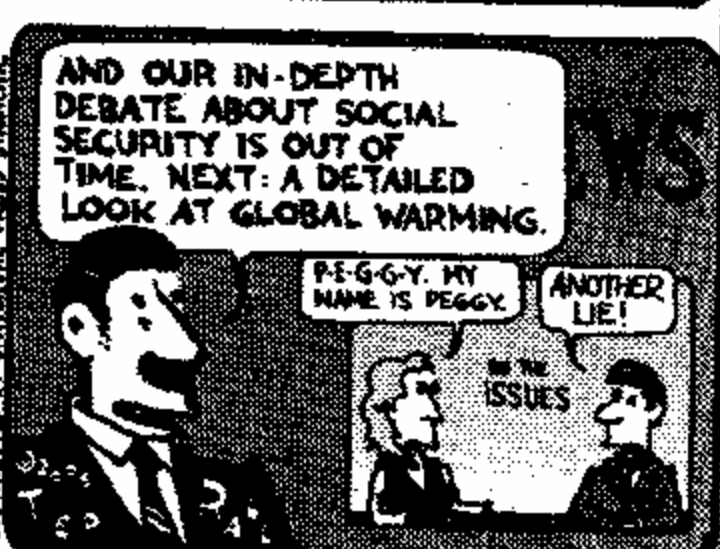
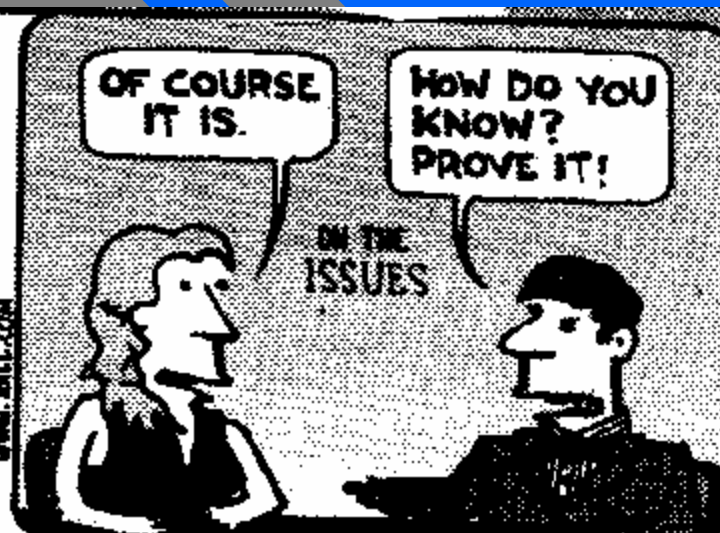
Retirement Research Consortium

National Press Club

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Three Really Good Papers

- Tap data well
- Results well-stated
- Help our understanding of well-being & relative well-being of the aged
- *Much more informed discussion than occurs in the media...*



A Few Quibbles & Questions

- Hurd-Rohwedder
 - Would like effects on different measures of poverty (including relative poverty)?
 - Also relative well-being
 - » Both wealth & longer accounting periods affect relative standing
 - Would start with annuity rate on net worth –then work backwards into consumption & saving
 - Can count the insurance value of Medicare
 - » Too important to ignore

A Few Quibbles & Questions

■ Munnell-Soto

- Should retiring earlier be interpreted as a reduction in replacement rates?
 - » Is it a reduction in rates of return?
 - » Is it a reduction in transfers received?
- Would start with annuity value for home & divide into imputed rent and residual return

A Few Quibbles & Questions

- Burtless

- Would be interesting to see if indirect taxes made any difference
- Tax subsidies add to U.S. health spending

What Should We Be Measuring?

Replacement rate not a principle, only a target

- Progressivity a principle
- Efficiency & individual equity are principles

Why measure consumption & rep. rate?

Life cycle theory—even out consumption

Relative well-being (progressivity)

Incentives to work (efficiency)

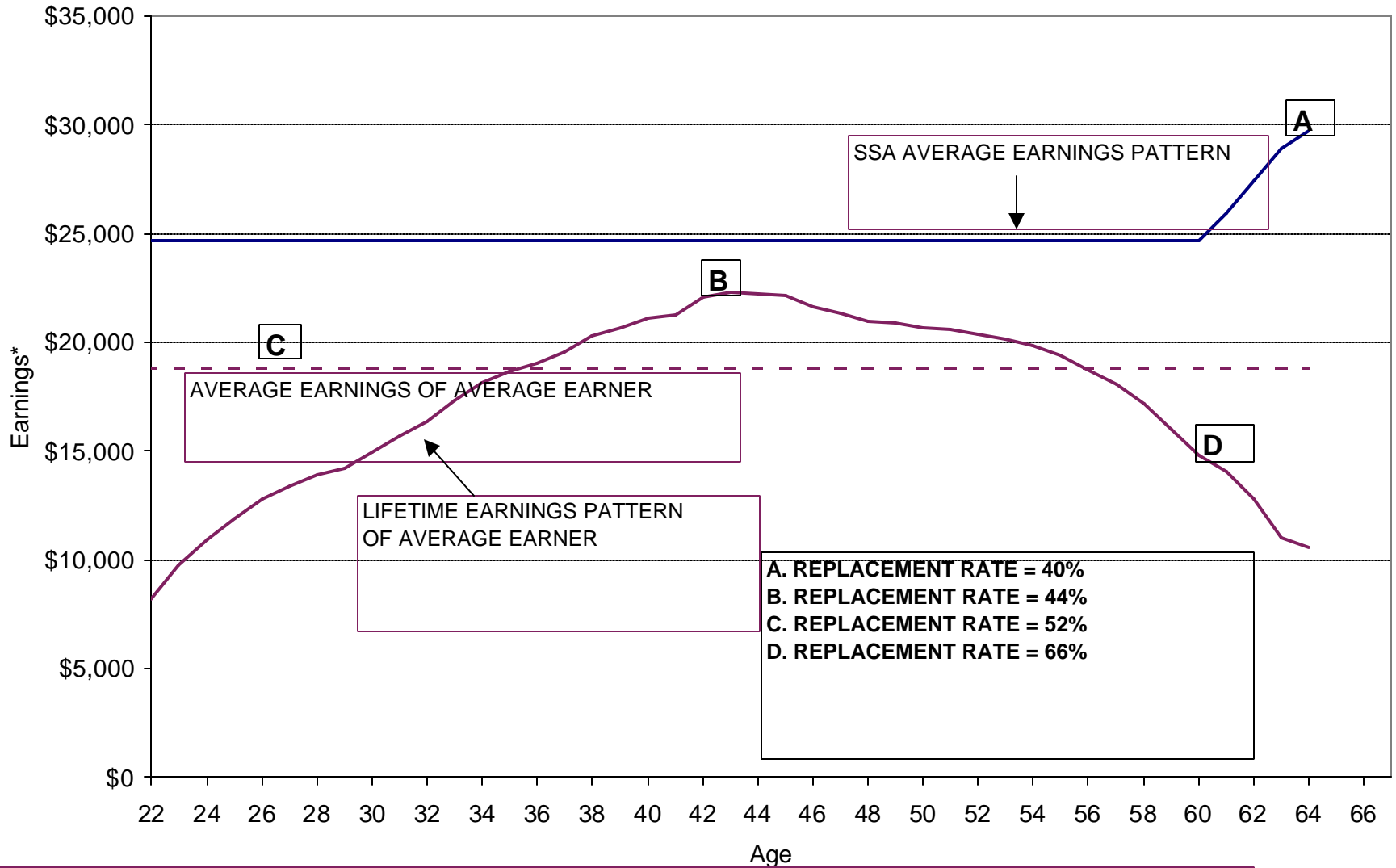
Accounting Period Issues

- Annual comparison?
 - With what pre-retirement period?
 - With what post-retirement period?
- Lifetime comparison?
- *It matters at what point you measure...*



"I had another bad dream about Social Security."

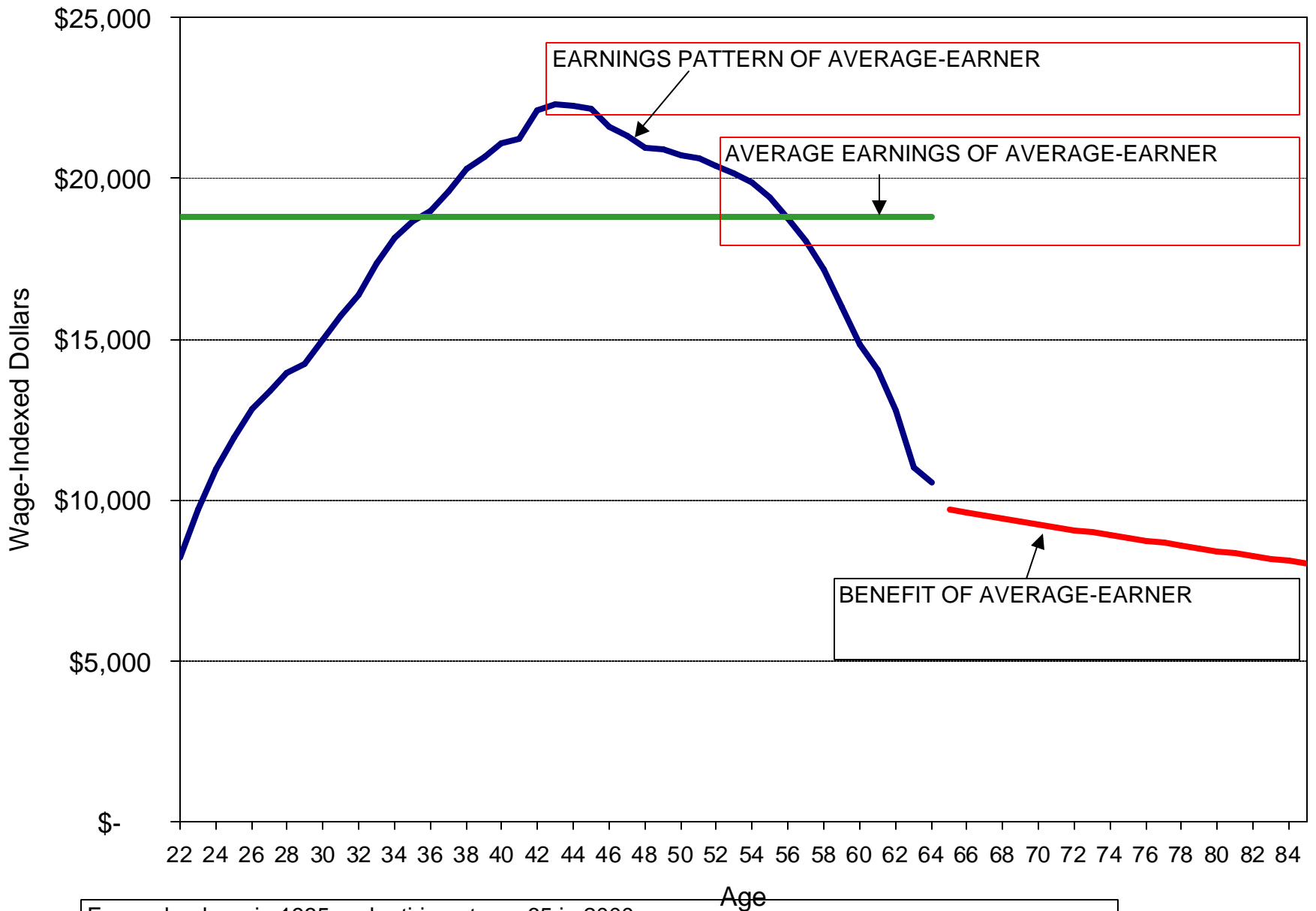
Alternative Measures of Replacement Rates



^Replacement rates for average earners retiring at age 65 in 2000.

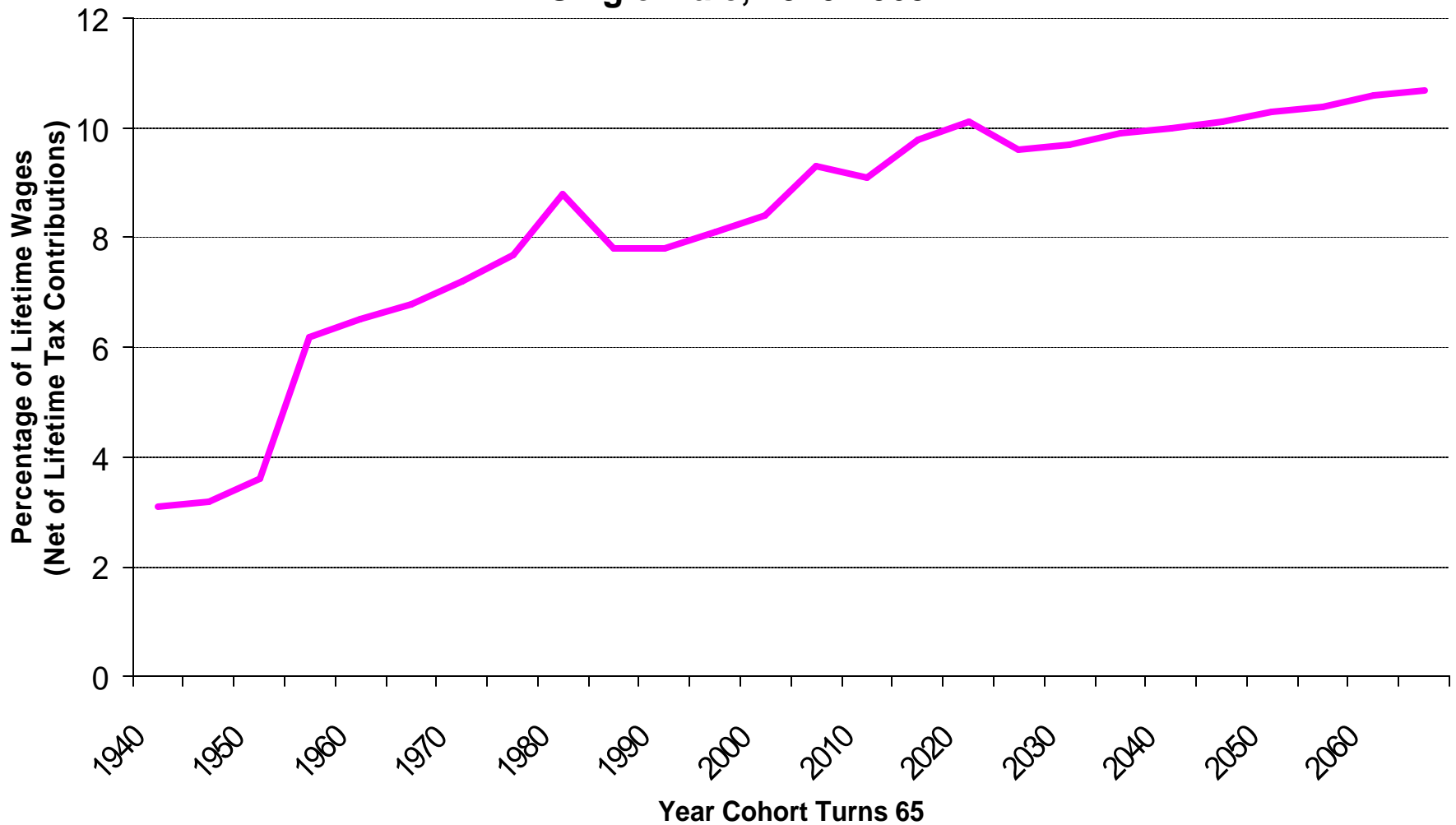
*Earnings before age 60 are wage-indexed. Earnings after age 60 are nominal.

Source: Eugene Steuerle, Adam Carasso, and Christopher Spiro, The Urban Institute, 2000.



For worker born in 1935 and retiring at age 65 in 2000.
 Source: Eugene Steuerle and Christopher Spiro, The Urban Institute, 2000.

Average Lifetime Benefits as a Percentage of Lifetime Wages for a Single Male, 1940-2065



Note: All amounts are based on 2005 dollars, adjusted to present value at age 65 using 2 percent real interest rate. Adjusts for chance of death in all years after age 65. Assumes benefits scheduled in law will be paid.

Source: C. Eugene Steuerle and Adam Carasso, The Urban Institute, 2005.

Should We Account For Taxes?

- If comparing young and old, shouldn't it be on an after-tax basis?

Example: 50% Before-tax Replacement

Workers/Retirees	Tax Rate	A-Tax RRate
100-1	0.5%	50%
4-1	12.5%	57%
2-1	25.0%	67%

After-Tax Replacement Rates Implied in Burtless Paper

Finland	88%
Germany	110%
United Kingdom	50%
United States	55%

Replacement Rate = Transfer Rate 65+/
Wages less labor share of taxes 35-54

Accounting for Health Care

- Must account for health care
 - $1/6^{\text{th}}$ of national income
 - $1/4^{\text{th}}$ or more of income of many elderly
 - Largest source of income growth for elderly & largest source of increased tax rates for non-elderly
- Example: hip replacement gives people additional years of mobility. Who should pay?
 - The beneficiary?
 - The rest of society?

Are Consumption & Replacement Rate Measures Biased to Understate Effect of Our Transfer Systems?

- “Average wage” worker *not* average
- AIME > average real income
- For many, AIME > last year’s worth of income
- Exclude increased years of benefits (no lifetime measures)
- Exclude increased taxes on transferors
- Exclude costs of health care (& related taxes)

COMING TO FENWAY PARK



THE ROLLING STONES

HITCH
TELEGRAM
& BROADCAST

THAT REMINDS ME
—ANYTHING NEW ON
SOCIAL SECURITY
REFORM?

