Social Security Policy in Ageing Societies: The Rich and the Poor

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1. Socioeconomic differences in Aging

- Widening distribution of earnings is well-known for many countries including the USA.
- Less well-known: Socio-economic differentials in mortality and life expectancy have been widening dramatically in the US and Europe.

Remaining Life expectancy at age 50 by birth cohort and by lifetime earnings (USA, 1960 is projected)

	Birth Year 1930	**Birth Year 1960**
Top 40%	31.0 years	38.3 years
Bottom 40%	26.5 years	27.0 years

Source: Preliminary work for a US National Academy of Sciences report

Bottom 40% gained hardly any years,
Top 40% gained over seven years
Difference for 1960 birth cohort is 11 years.

Consequences for Social Security transfers to older men

- US system is designed to redistribute from richer to poorer elderly (to have “progressive” benefits)
- Instead, because the rich collect benefits over longer life, the top 20% income group born in 1930 got $100,000 more in benefits than the bottom 20%.
- For the 1960 birth cohort, the increased difference in life expectancy will give the top 20% income group **an additional** $70,000 more than bottom.
- Unfortunately, we could not analyze the differences in contributions.

Policy implications

- Raising the retirement age across the board would be unfair.
- Some illustrative alternatives –
  - You can retire after you have worked for 45 years (those with less education start work younger and could retire younger)
  - Retirement age could be older for those with higher lifetime earnings, and younger for those with lower lifetime earnings.
  - Public pensions could be need-based rather than universal. But then the public might not support them.
- There are similar issues with public health care and long term care: higher income groups receive the benefits for more years than the poor.

Interaction of public pension system with private transfer system for elderly

- Generations are linked by altruistic ties and by shared interests
- Private actions may offset changes in Social Security policy.
- In Ecuador, the new government introduced a more generous defined benefit PAYGO pension system in 2007.
    - 2006 NTA shows that elderly received net family transfers from their adult children.
    - 2011 NTA shows that elderly made substantial net transfers to their adult children.
    - This suggests substitution of public for private transfers.

In Chile in early 1980s, a new policy replaced public defined benefit Social Security with mandatory private retirement accounts.

- Phased in slowly, many still receive PAYGO benefits, but declining.
- 1997 NTA shows that elderly gave money to their adult children.
- 2007 NTA shows that public PAYGO pensions for elderly declined, and now they received 21% of their support from adult children.
- The sum of public transfers and family transfers is fairly similar in 1997 and 2007, suggesting substitution.
- Problems with the new private retirement account system:
  - many workers were in informal sector and did not participate;
  - Many low income workers who did participate got a very low rate of return or lost money.

Are public pension systems too generous, since they reduce support by family and lead elderly to instead support their adult children?

- Poor people may need these pensions – they have lower savings, and perhaps their children are also poor, they qualify only for lower benefits.
  - Cutting pension levels might seriously harm low income elderly.
- Richer people may not need them, and may simply pass the public pensions down to their children.
  - In NTA we typically see inter vivos transfers from elderly to their children.
- These are very important questions that NTA disaggregated by socioeconomic status will help us answer