

Public Pension Design and Household Retirement Decisions: Cross-national Comparisons

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Study Objective

- Analyze responsiveness to retirement incentives from social security benefit structure for the primary earner using newly harmonized cross-country data
- Extend the approach to estimate additional retirement incentives from auxiliary benefits and benefit taxation

It is a work in progress

- ***Motivation***
- ***Approach***
- ***Key methodological challenges***

In the Past 35 Years, There Has Been Limited Policy Variation

- Old Age and Survivors Insurance (OASI) benefits in the United States have not substantially changed since 1983
- Examining household work and savings behavior under alternative institutional structures will enable policymakers and researchers to learn from other countries' pension reforms and designs

People Respond to Incentives

- Economic theory suggests, and past research validates, that household choices respond to key elements of the benefit structure
 - Benefit eligibility age
 - Delayed retirement credits
- Gruber and Wise (1999) and coauthors demonstrated this consistently internationally
 - Existing work has not focused on auxiliary benefits, a significant components of US social security

People Respond to Incentives...Sometimes

- Carman and Hung (2018) find “that while many are aware of spousal and survivor’s benefits, knowledge about eligibility and benefit amounts is relatively low.”
- Learning about benefits may occur near retirement
 - May be too late to respond
- Learning may never happen

Auxiliary Benefits Can Provide Incentives and Disincentives to Work

- Spouse benefits
 - At full retirement age (FRA), a married beneficiary is entitled to 50% of spouse's benefit or 100% of her own benefit
 - If claiming spouse benefit:
 - Penalty for claiming before FRA
 - No benefit of delaying after FRA
- In households with a dominant earner:
 - Incentive for the primary earner to work
 - Disincentive for the secondary earner to work

Auxiliary Benefits Can Provide Incentives and Disincentives to Work

- Survivor Benefits
 - At full retirement age (FRA), a survivor is entitled to 100% of deceased's benefit or 100% of her own benefit
 - If claiming survivor benefit:
 - Penalty if beneficiary or the deceased claim before FRA
 - Benefit to delayed claiming
- In households with a dominant earner:
 - Incentive for the primary earner to work
 - Disincentive for the secondary earner to work

Auxiliary Benefit Example



Single income

Primary-earner own entitlement: \$2000

Secondary-earner own entitlement : \$0

Spouse benefit: \$1000

Total benefit: \$3000

Auxiliary Benefit Example

Spouse Benefits



Single income

Primary-earner: \$2000
Secondary-earner: \$0

Spouse benefit: \$1000
Total benefit: \$3000

Same own
entitlement

50% greater
entitlement



Dual income

Primary-earner: \$1000
Secondary-earner: \$1000

Spouse benefit: \$0
Total benefit: \$2000

Auxiliary Benefit Example

Spouse Benefits



Single income

Primary-earner: \$2000

Secondary-earner: \$0

Spouse benefit: \$1000

Total benefit: \$3000

Only in the single income household does the work decision of the other spouse influence the incentive to work via spouse benefits

Auxiliary Benefit Example

Survivor Benefits



Single income

67%

Primary-earner: \$2000
Secondary-earner: \$0

Total benefit: \$2000



Dual income

50%

Primary-earner: \$1000
Secondary-earner: \$1000

Total benefit: \$1000

Auxiliary Benefit Example

Survivor Benefits

The dual income household, if it is forward looking, would be incentivized to work longer to insure against lost income in widowhood



50%

Dual income

Primary-earner: \$1000
Secondary-earner: \$1000

Total benefit: \$1000

The U.S. Spouse Benefit Is Rare

- The cost of divorce is assumed by the Social Security system
 - Divorced spouse and survivor benefits
- Auxiliary benefits are more limited in other countries
 - Fixed spouse benefits if spouse is not otherwise entitled (e.g., Korea)
 - Split entitlements in the case of divorce (e.g., Germany)

Survivor Benefits Vary Internationally

- Most countries offer survivor benefits
- Design can differ significantly
 - Dependent on the primary earner's work history (e.g., Italy),
 - Fixed amount (e.g., Netherlands)

Approach

- Own and auxiliary benefit incentive measures can be computed separately
- Evaluate whether an additional dollar from auxiliary benefits is the same as an additional dollar in a recipient's own benefits
- Compare responsiveness to auxiliary benefit structures across countries
 - Goal: understand if certain benefit designs exhibit stronger behavioral responses

Challenge: Developing Harmonized Cross-country Public Pension Measures

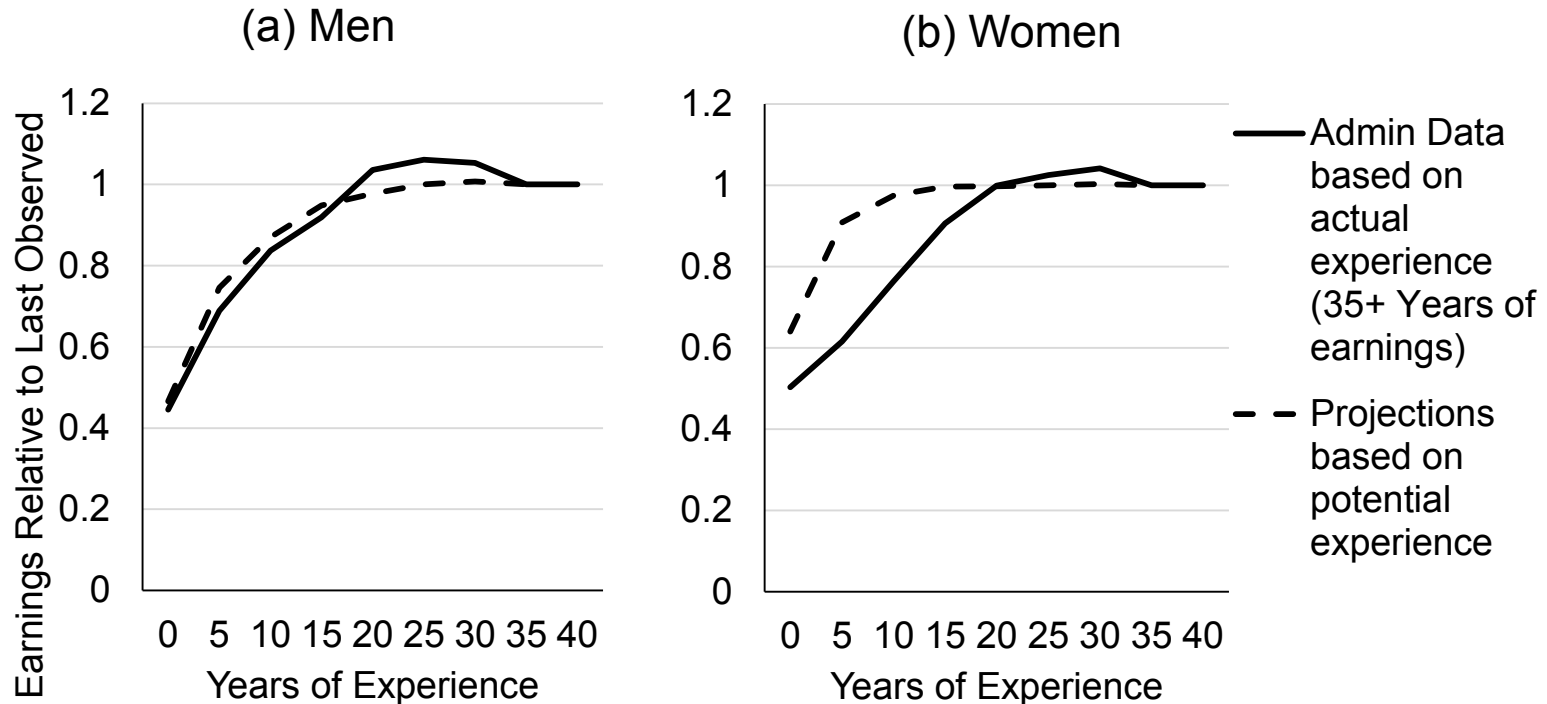
- As part of the Gateway to Global Aging, we are developing harmonized public pension measures for the international HRS family of surveys
 - Documented pension design and history reflecting the policies in place at the time of the surveys
 - Policy and institutional detail explorer will be available this next year
- Pension incentives are intended to reflect forward looking measures of public pension wealth

Harmonized Data Requires Common Questions and Methods

- Not all surveys ask the same questions
- Pensions depend on lifetime work and earnings
- Lifetime earnings must be estimated
 - Use cross-sectional data to estimate age-earnings trajectories
 - Without administrative earnings history, level of pension entitlement exhibits substantial measurement error (Knapp et al., 2019)
 - In U.S., pension incentives for men are relatively robust to measurement error
 - Driven primarily by incentives to delay claiming

Cross-sectional Estimates Lead to Bias

Earnings Trajectories for Women



Next Steps

- Develop a method for estimating female lifecycle earnings that can be consistently implemented across the global HRS surveys
- Compute forward-looking pension incentive measures
- Evaluate whether an additional dollar from auxiliary benefits is the same as an additional dollar in a recipient's own benefits in the U.S.
- Evaluate household responsiveness to auxiliary benefit design across countries

