



Social Security on Auto-Pilot; International Experience with Automatic Stabilizer Mechanisms

Bosworth and Weaver

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Automatic Mechanisms—Why?

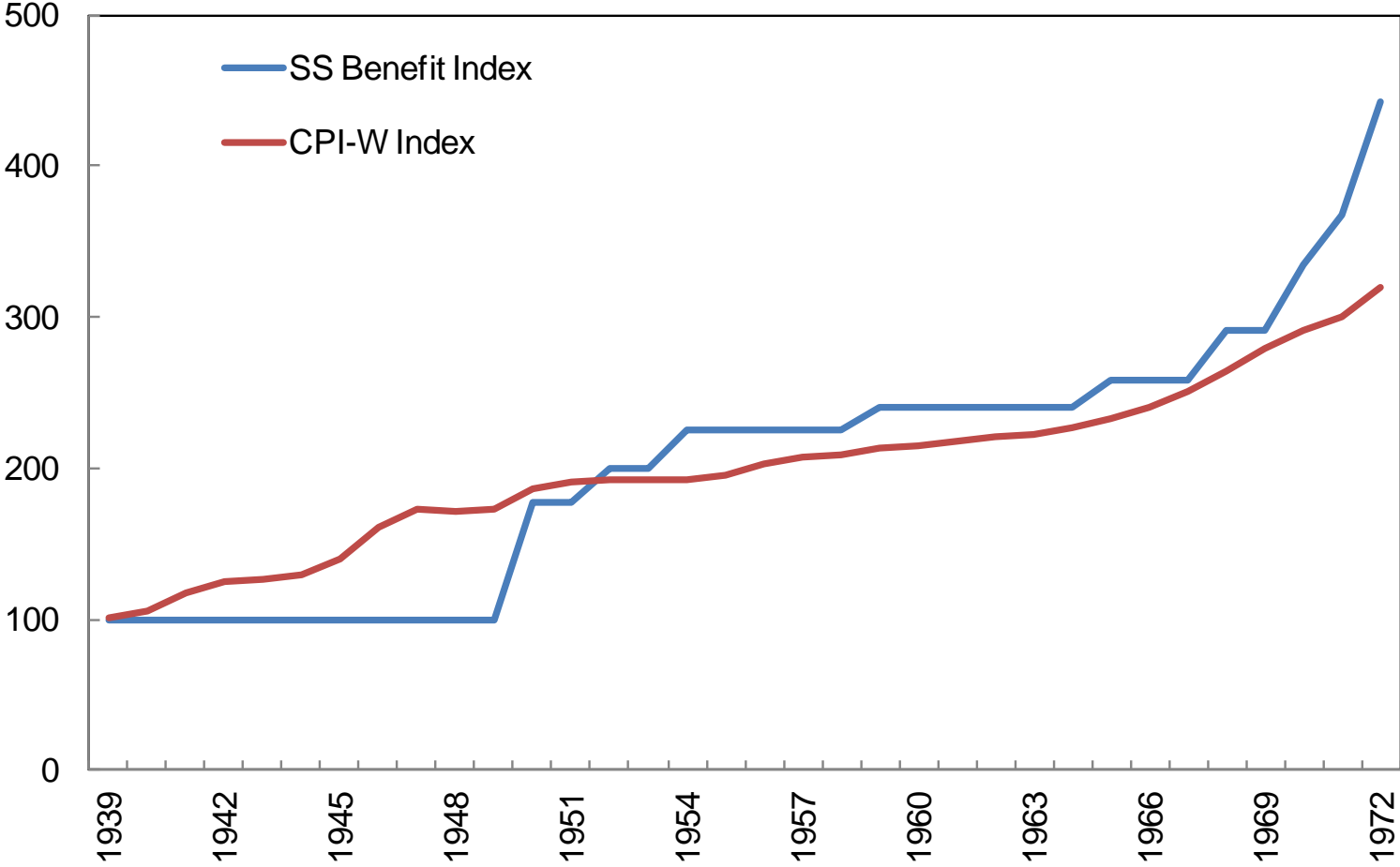


- Premise: **gradual** and **expected** changes are preferable
 - (public and) congress might be myopic
 - time to prepare
 - demographics + politics

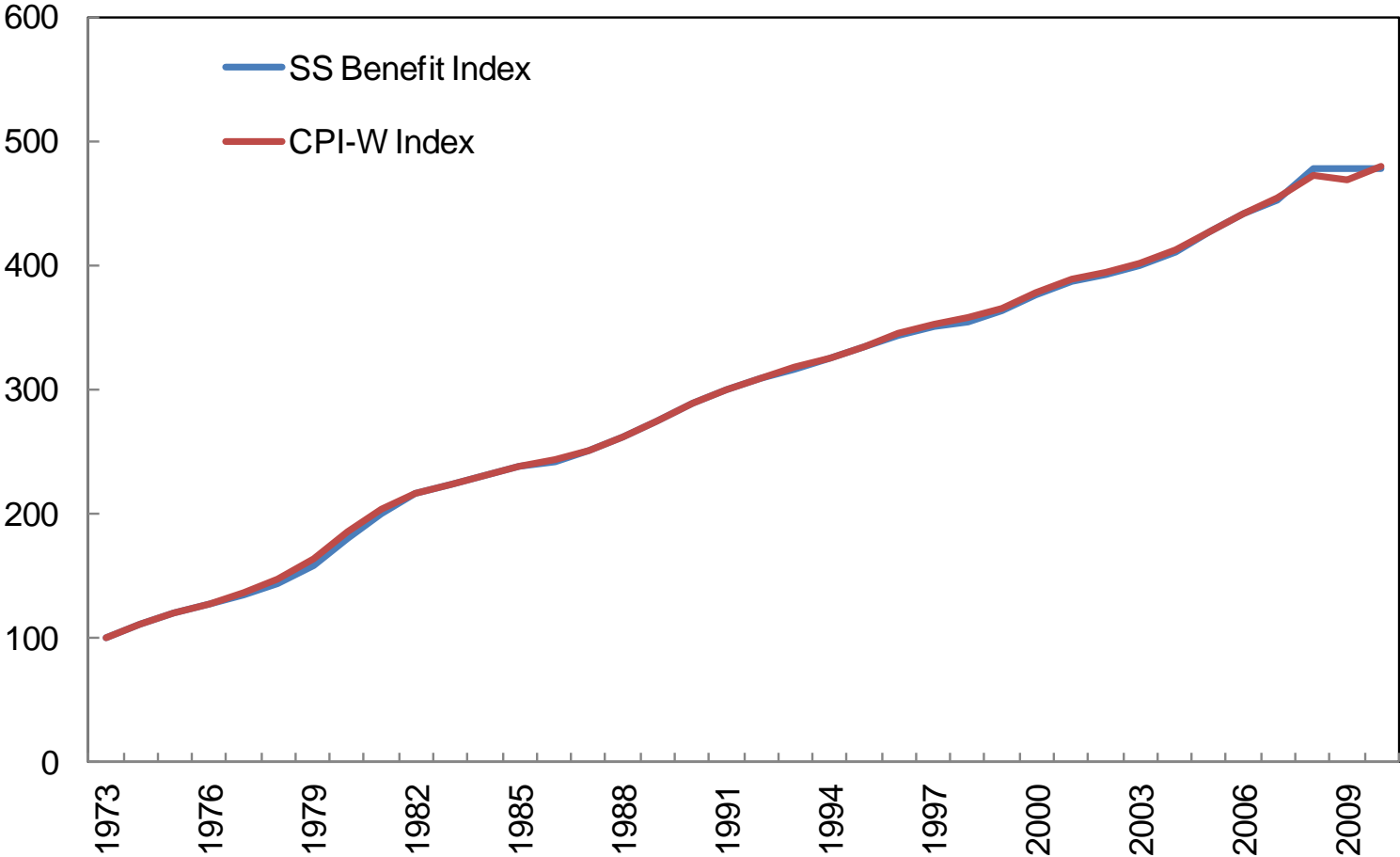
But, frequent legislative action

- could be costly (congress would do it anyway)
- might be risky (reforms can always go wrong)

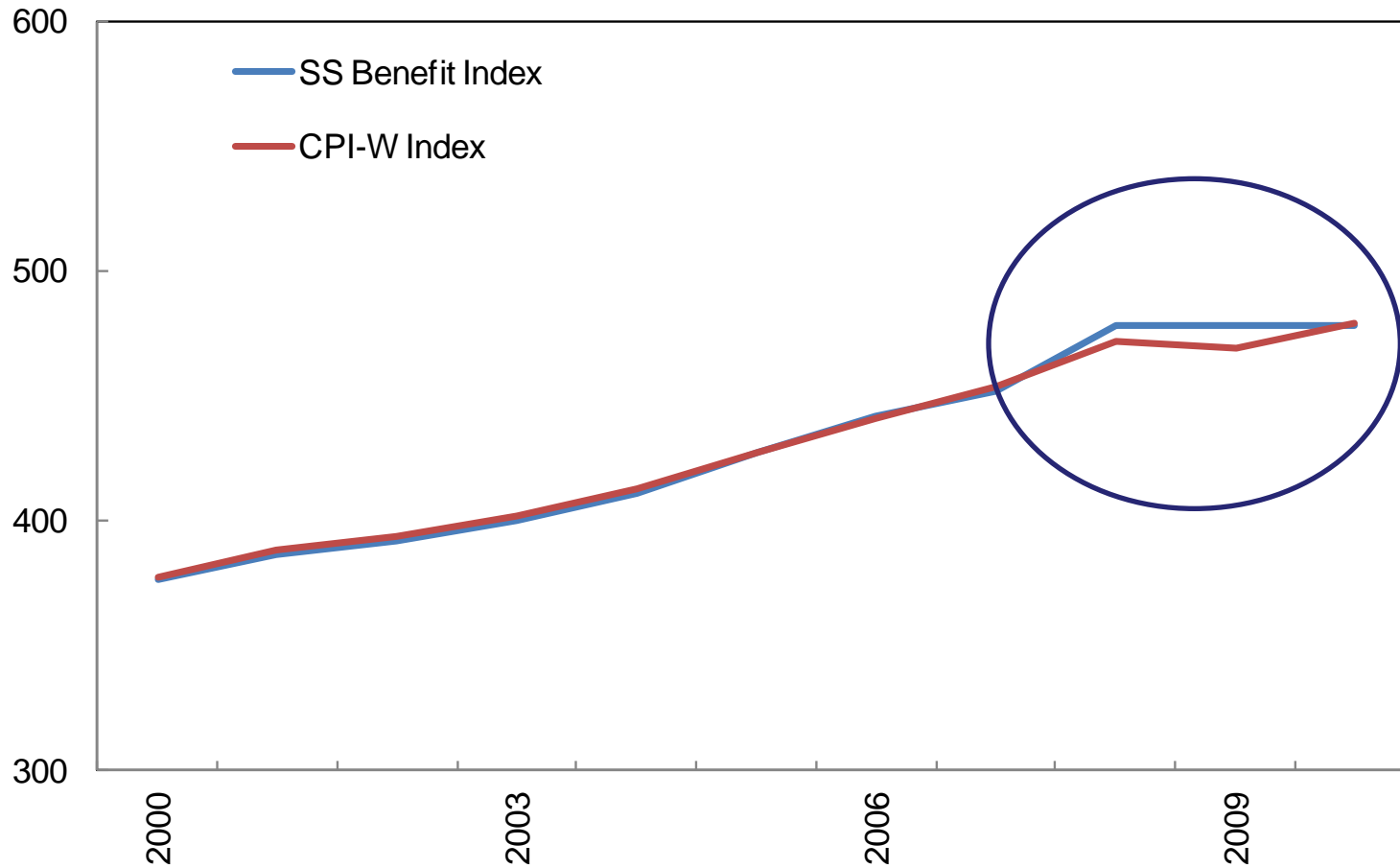
Benefit Adjustments Before 1973



Benefit Indexation After 1973



Automatic=Success?



No COLA Adjustments



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- * U.S. House to vote on \$250 one-time payment

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In Other Advanced Economies



- Index to life expectancy
 - ret. age (Denmark, Greece, Italy)
 - benefits (Brazil, Finland, Portugal)
 - years of service (France)
- Sustainability Factors (Austria, Germany, Japan)
- Actuarial Balance (Canada, Sweden)
- NDC (Italy, Latvia, Norway, Poland, Sweden)
- Triggers (Greece, Spain)

A Combination Could Work



- Automatic Adjustments with Triggers (Japan, and to an extent Germany)
 - Adjust up to a limit—say replacement rate 50 percent
 - Once that limit is reached, review all parameters of the system

Proposals for the U.S.



- **Index Retirement Age to Longevity (1/5 of imbalance)**
 - Coburn (2011); Graham, Paul, Lee (2011); Bowles, Simpson, Rivlin, Domenici (2010); Pomeroy (2010); Ryan (2010); NRC, NAPA; (2010); NASI (2009); AARP (2009); National Commission on Retirement Policy (2000)
- **Index PIA to Longevity (1/4 of imbalance)**
 - Bennet (2009); Bennet (2006); Kolbe, Boyd (2005); Kolbe, Stenholm (2003); Kolbe, Stenholm (2001); Gregg, Breaux, Kerrey, and Grassley (2001)
- **Index Payroll Rates to Longevity (1/4 of imbalance)**
 - Diamond, Orszag (2003)

Proposals for the U.S.



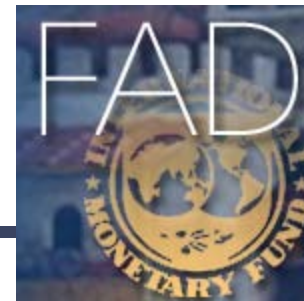
- **Index Taxable Maximum to Wage Distribution**
 - Bowles, Simpson, Rivlin, Domenici (2010); Senate Special Committee on Aging (2010); AARP (2009); Kolbe, Boyd (2005); Kolbe, Stenholm (2003); Diamond, Orszag (2003); Kolbe, Stenholm (2001)
- **Explicit Mechanism to Respond to Shortfalls**
 - Gregg, Breaux, Kerrey, and Grassley (2001)
- **Constraining Future Legislation**
 - Deutch (2010)

Automatic Mechanisms=Success?



- Are they credible?
 - manipulation
 - evasion
 - suspension
 - erosion
- Do they really isolate adjustments from politics?
- Intra- and inter- generational equity

What are the Alternatives?

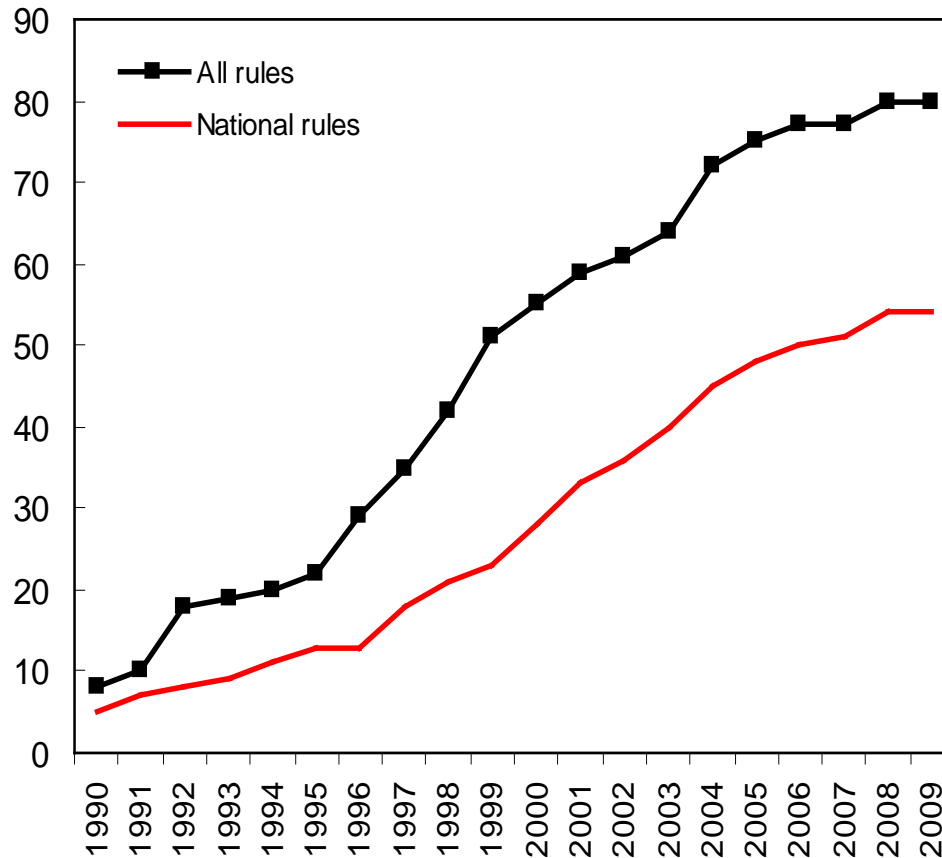


- **No Reform: Wait and See**
 - If systems are unsustainable and fiscal space is limited, not feasible
- **Sequential Reforms: Congress Knows Best**
- **Autopilot: Better Now than Later**
- **Triggers: Better Later than Never**

Related—Fiscal Rules Literature



Number of Countries with Fiscal Rules, 1990-2009



Sources: IMF fiscal rules database; and staff calculations.