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SOCIAL SECURITY PERSONAL-ACCOUNT PARTICIPATION WITH GOVERNMENT MATCHING

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This project examined the potential impact of government matching contributions on personal-account participation in the President's Commission on Strengthening Social Security's Model 3 for Social Security reform and used data on older workers (ages 40 to 65) from the first wave of the Health and Retirement Study. There were five principal findings:

- Given the government's choice of four plan-design parameters, the magnitude of the match is determined solely by the differential return personal-account assets receive above the notional return, referred to as the "personal-account premium";
- Using estimates from a structural model of the impact of employer matching on participation in corporate 401(k) plans, personal-account participation was simulated to be 53 percent for older workers facing a personal-account premium of five percentage points, which implies a match rate of 12.5 percent for lower- to middle-income workers;
- Participation is not very responsive to the size of the match rate;
- It is very unlikely that participation by older workers would achieve the mid-range assumption of 67 percent used by the Commission in determining the long-run fiscal impact of personal accounts under Model 3; and
- Those who would participate the least would be low-educated, unmarried, and minority workers.

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