Accounting for the Macroeconomic Effects of Pensions, 401(k)s and Social Insurance

Teresa Ghilarducci
The New School for Social Research

New Institutions

- The financialization of traditional pension systems across the world has put retirement income security at risk and destabilized macroeconomies.

- “Democratizing” retirement is one of the greatest achievements of robust market economies

Effect on Marginal Propensity to Consume

- Output gap falls => DC value fall and DC rates of return decrease *(wealth effect)* => savings increases => MPC falls
- Output gap falls => interest rates fall so that DB liabilities increase and rates of return fall which shrinks assets (through rules about full funding and politics about FF) DB employers increase savings => MPC falls

Effect on Spending

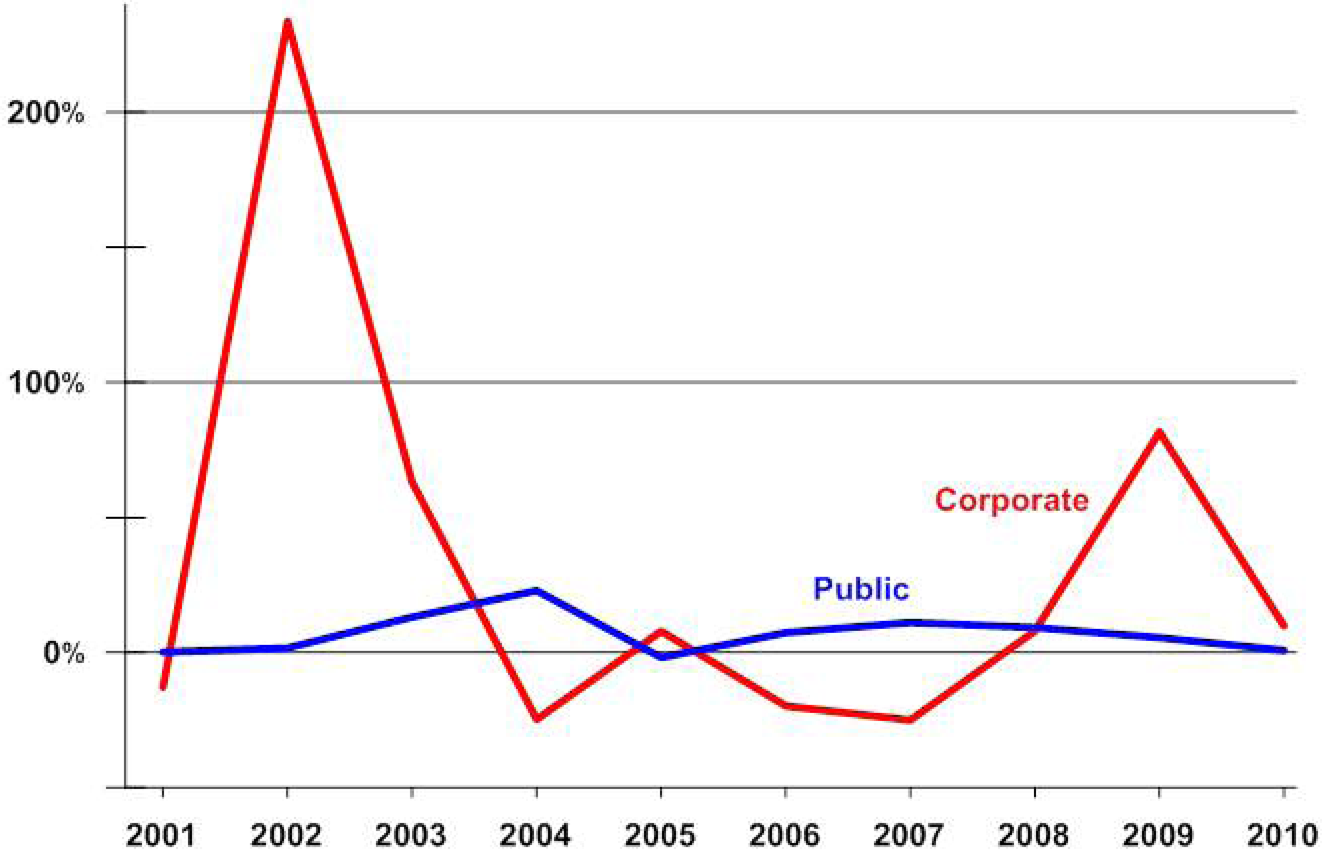
- Output gap falls => DC values and DC income fall (through the income effect) => demand falls

- Output gap falls => DB income increases (through the income effect) => demand increases

Effect on Unemployment

- Output gap falls => DB benefits increase relative to falling wages (through labor supply effect) => labor force participation falls => unemployment falls
- Output gap falls => DC benefits decrease relative to wages (through labor supply effect) => labor force participation increases => unemployment increases

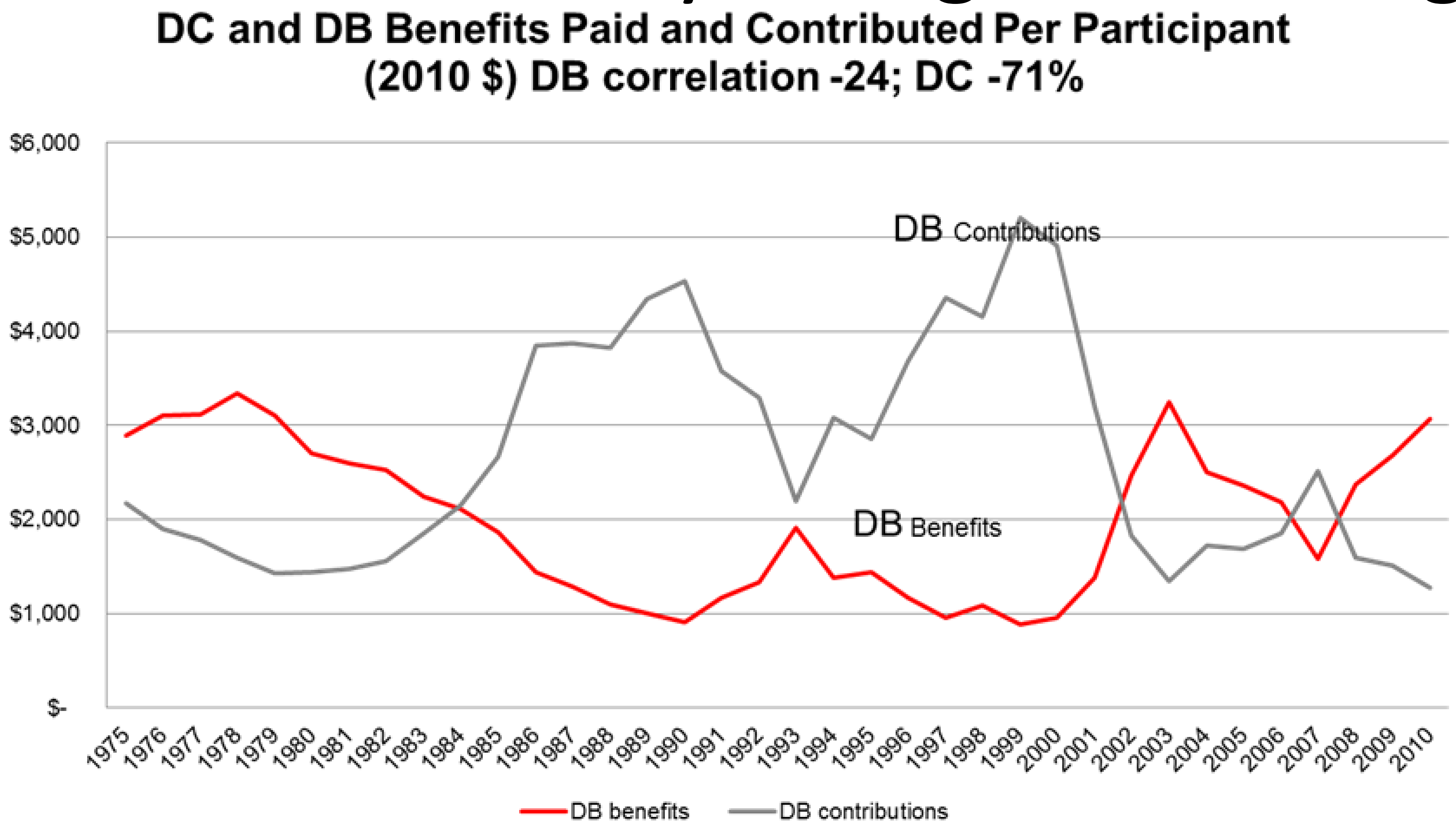
Figure 2: Comparison of change from prior year in corporate and public pension contributions, 2001 to 2010



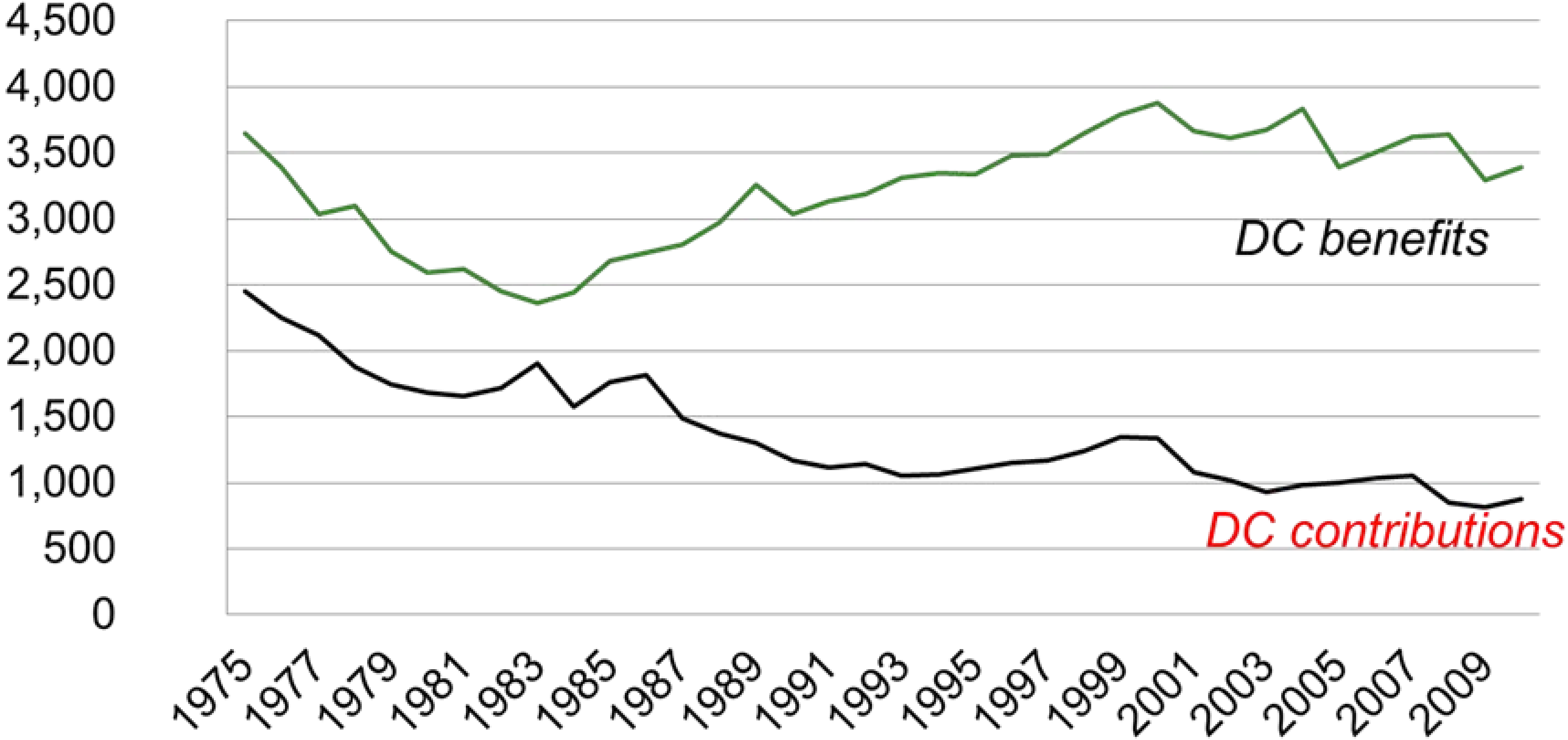
Source: Milliman and U.S. Census Bureau

.

DB Plans Quietly Doing Their Thing



DC Plans Are Not Stabilizing



Share of Program of GDP (average 1971-2009)

Social Security Ben. /Taxes	3.7% /4.4%
401(k) Payout/Contributions	1% /.5%
DB (Payout/contributions)	1.1%/.9%
Disability Ins. Ben. /Taxes	.5% / .5%
Unmploy Ins. Ben. /Taxes	.3% /.3%
Medicare Payout/Taxes	1.9% / 2%
Fed. Income Taxes	8.1%

Net Impact of an Increase in the Output Gap (from Ghilarducci, Saad-Lessler, Fisher 2012

	Shares	Levels	
Social Security (benefits-taxes)	-3.2%	-4.8%	
401(k) (benefits-taxes)	7.6%	4.7%	
Private DB plans (benefits-taxes)	-.8%	0	
Unemployment Insurance (benefits-taxes)	-8.3%	-3.7%	
Disability Insurance (benefits-taxes)	-1.1%	.-4%	
Medicare (benefits-taxes)	-3.8%	0	counter
Federal Income Tax Collection	25%	21%	Strongly Counter

What is wrong with 401(k)?

- They fail on their own terms: payout, accumulation, investment

- DC are procyclical

Mandatory Pensions

- **PAYOUT**
  - GRAs pay an inflation-adjusted annuity, funds cannot be withdrawn before retirement
- **ACCUMULATION**
  - 5 -10% of pay; tax credits not deductions
- **INVESTMENT**
  - Professional board invests the money in private markets- SWF; Guaranteed 3% plus inflation

Automatic Stabilizers affect Demand and Labor Supply

- GRAs would work with other forms of social insurance– Social Security, disability insurance, health insurance – to help counter the effects of the business cycle by encouraging workers to leave the labor market in recessions, and do the opposite in expansions.

Automatic Stabilizers are Also Social Insurance

- “Democratizing” retirement is one of the greatest achievements of robust market economies

- Activist fiscal policy should use secure and robust social insurance to both help raise living standards and stabilize capitalist market economies.