Subsidized Contributory Schemes for Special Groups

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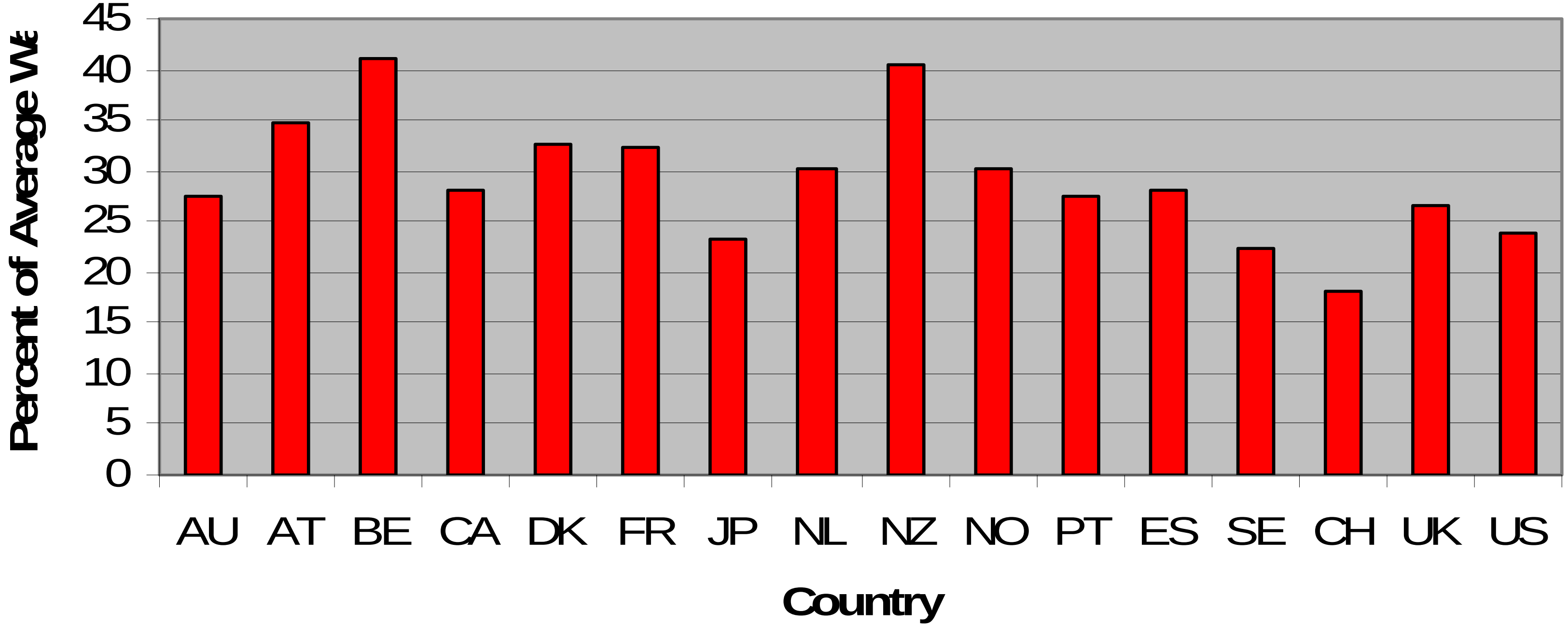
Topics covered

All (virtually all?) developed countries subsidize the benefits of certain beneficiaries who would otherwise be (or presumed to be) poor. My remarks will focus on four issues:

1. Level of the guarantee
2. Structure of the guarantee
3. Source of funds
4. Targeting mechanisms

I close with a couple of estimates of the size of two of the cross-subsidies in the U.S. system

Minimum Income Guarantees in Selected OECD Retirement Systems



Source: Lawrence H. Thompson and Adam Carasso, “Social Security and the Treatment of Families: How Does the United States Compare With Other Developed Countries?” in Melissa M. Favreault, Frank J. Sammartino, and C. Eugene Steuerle, <u>Social Security and the Family</u> (Washington: The Urban Institute, 2002) pp,. 123-176.

Structure of the Guarantee

Structure of the Guarantee

1. Universal flat benefit (Norway, Netherlands, New Zealand)
2. Minimum pension (Belgium, Spain)
3. Revaluation of earnings credits (Germany)
4. Pension tested guarantee (Finland, Sweden)
5. Income and asset tested guarantee (Australia, United States)

Source of funds:

1. General budget (Most countries)
   - Separate, budget-financed program
   - Subsidy to contributory program (Germany)
2. Dedicated tax (Netherlands)
3. Cross subsidy from other contributors (Most countries)

Targeting Considerations

1. Income measure
   a. Lifetime income measure
   b. Current income in retirement
   c. Current income at time of contribution
2. Budget cost
3. Administrative cost and capacity
4. Coverage of aged under contributory scheme
5. Work (and saving?) incentives

Cross Subsidies Within The U.S. Program

Major sources of cross subsidies:

1. Progressive 3 bracket formula (90%, 32%, 15%)
   - Increases average benefit of lowest quintile by 45%
   - Reduces average benefit of highest quintile by 30%
2. Additional benefits for dependents and survivors
   - Reduces retirement pensions by 20%
   - Goes to: Surviving spouses (60%); surviving children (17%); non-working spouses (17%); others (6%)
3. Inclusion of only 35 years of credits in calculation