New Pension Institutions and Automatic Stabilizers

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New Institutions

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

- As real business cycle theory took hold, economists warned that AS programs, such as unemployment insurance could negatively effect aggregate supply and hurt long term growth.

Table 1: Pension Institutions: Unrecognized Automatic Stabilizers

	Share of GDP 2008/2009	Changes in recession	Changes in expansion
Social Security benefits	*4.80%*	17.0%	1.19% †
401(k) contributions	*0.81%‡*	-0.57%‡	2.43%
Defined Benefit payments	*0.62%‡*	4.30%‡	-16.88%

Table 2: Taxes: Recognized Automatic Stabilizers

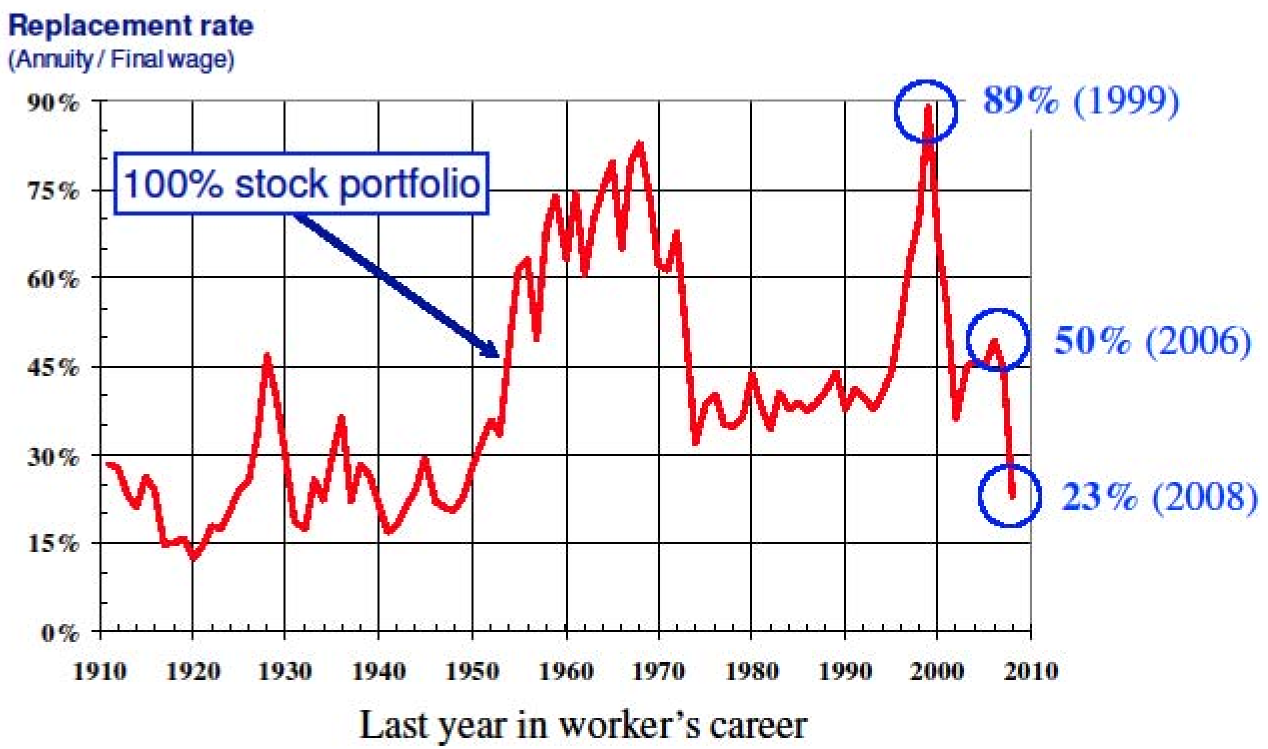
	Share of GDP 2008/2009	Changes in recession	Changes in expansion
Personal income taxes[1]	*7.65%*	-27.9%	+10.7%
Business income tax[2]	*1.99%*	-28.7%	-3.8%
Social Security taxes[3]	*5.79%*	-8.9%	.013% †
Unemployment taxes	*.21*	-3.9	-17.9

Table 3: Unemployment Insurance (Recognized) and Disability Insurance have Similar Stabilizing Effects

	Share of GDP 2008/2009	Changes in recession	Changes in expansion
Unemployment insurance benefits	*.29%*	35.2%	-6%
Disability benefits	*.230%*	16.4%	-3%

Gary Burtless; may 6, 2009 http://www.aei.org/docLib/Burtless%20-%20PowerPoint.pdf

Replacement rate obtained from personal retirement account of worker who contributes 4 percent of his annual salary over a 40-year career



Mandatory Pensions: A New Pension Institution

Payout at retirement

- GRAs pay an inflation-adjusted annuity, based on the accumulated funds, when the worker collects Social Security
- The funds cannot be withdrawn before retirement

Contributions

- 5% of pay is split evenly between the employer and employee
- Everyone gets a $600 tax credit (inflation adjusted)

Investments

- Professional Board Invests the money in private markets - SWF
- Guaranteed 3% plus inflation
- The guarantee has little chance of hurting government budgets

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.