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Article | Brookings Papers on Economic Activity | Fall 2014

Seesaws and Social Security Benefits Indexing

by Matthew Weinzierl

Abstract

The price indexation of Social Security benefit payments has emerged in recent years as a flashpoint of debate in the United States. I characterize the direct effects that changes in that price index would have on retirees who differ in their initial wealth at retirement and in their mortality rates after retirement. I propose a simple but flexible theoretical framework that converts benefits reform first into changes to retirees' consumption paths and then into a net effect on social welfare. I calibrate that framework using recently produced data on Social Security beneficiaries by lifetime income decile and both existing and new survey evidence on the normative priorities Americans have regarding their Social Security benefits. The results suggest that the value retirees place on protection against longevity risk is an important caveat to the widespread enthusiasm for a switch to a slower-growing price index such as the chained CPI-U.

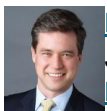**Keywords:** Retirement; Compensation and Benefits; United States;

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Citation:

Weinzierl, Matthew. "Seesaws and Social Security Benefits Indexing." *Brookings Papers on Economic Activity* (Fall 2014): 137–196.

[Export Citation]

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