

The Public Pension System in the U.S.:

Assessing the Problems & Addressing the Challenges

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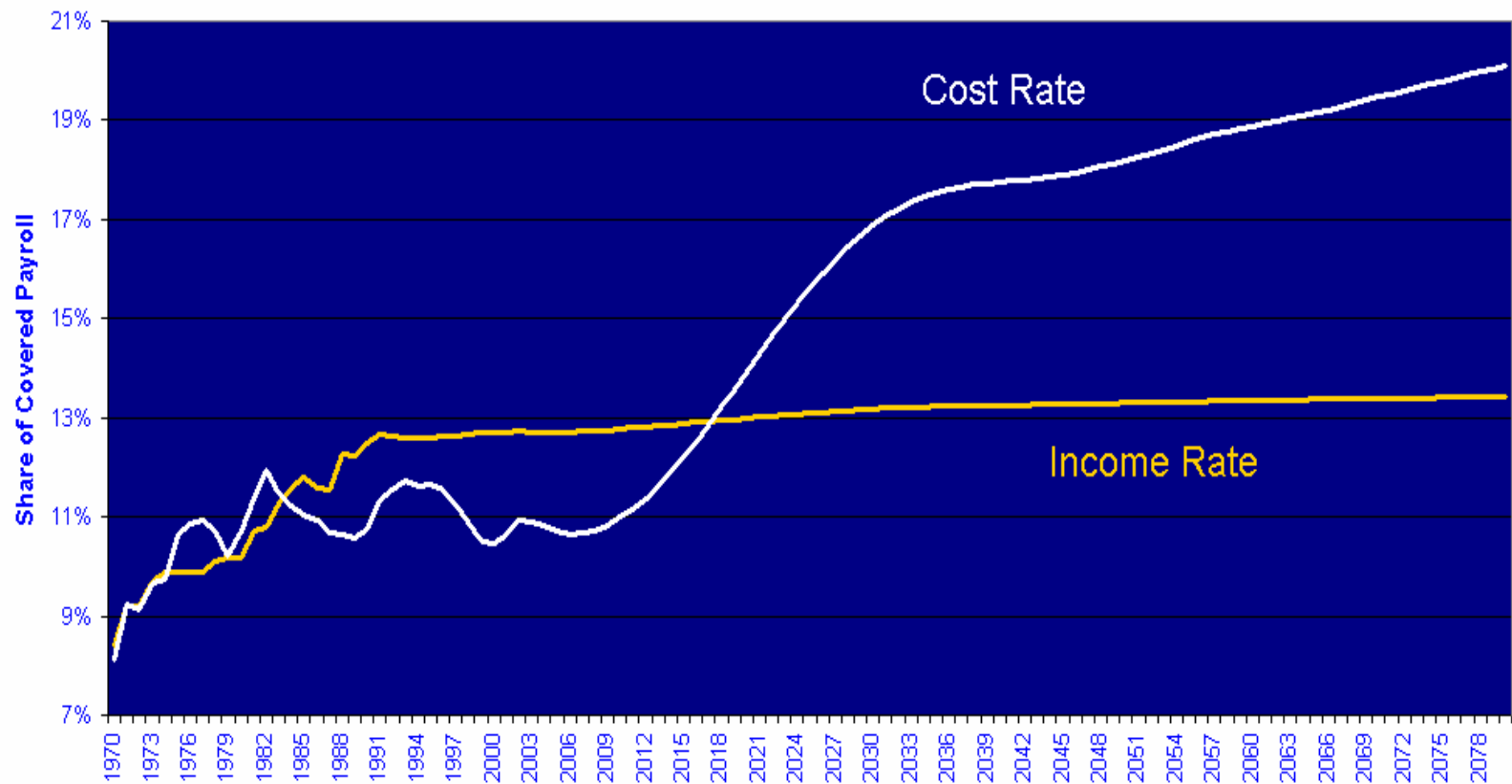
The Problem

- The upcoming retirement of the baby boom generation
 - Growing life expectancies
 - Declining birth rates
 - The maturation of a pay-as-you-go system
 - The use of government trust funds to pre-fund Social Security
- ...lead to an unsustainable Social Security system**

Social Security by the Numbers

- **Key Dates** {2008, 2018, 2041}
- **Cash Flow Deficits** {2020 - \$60 bil, 2030 - \$260 bil, 2050 - \$450 bil, 2070 - \$720}
- **Present Value** {\$3.5 trillion, \$10.5 trillion}
- **Programmatic Changes** {Benefit reductions – 33%, tax increase - 49%}
- **Share of GDP** {4.4% to 7.0%}

Income and Cost Rates of Social Security



The Other Two Legs of the Stool

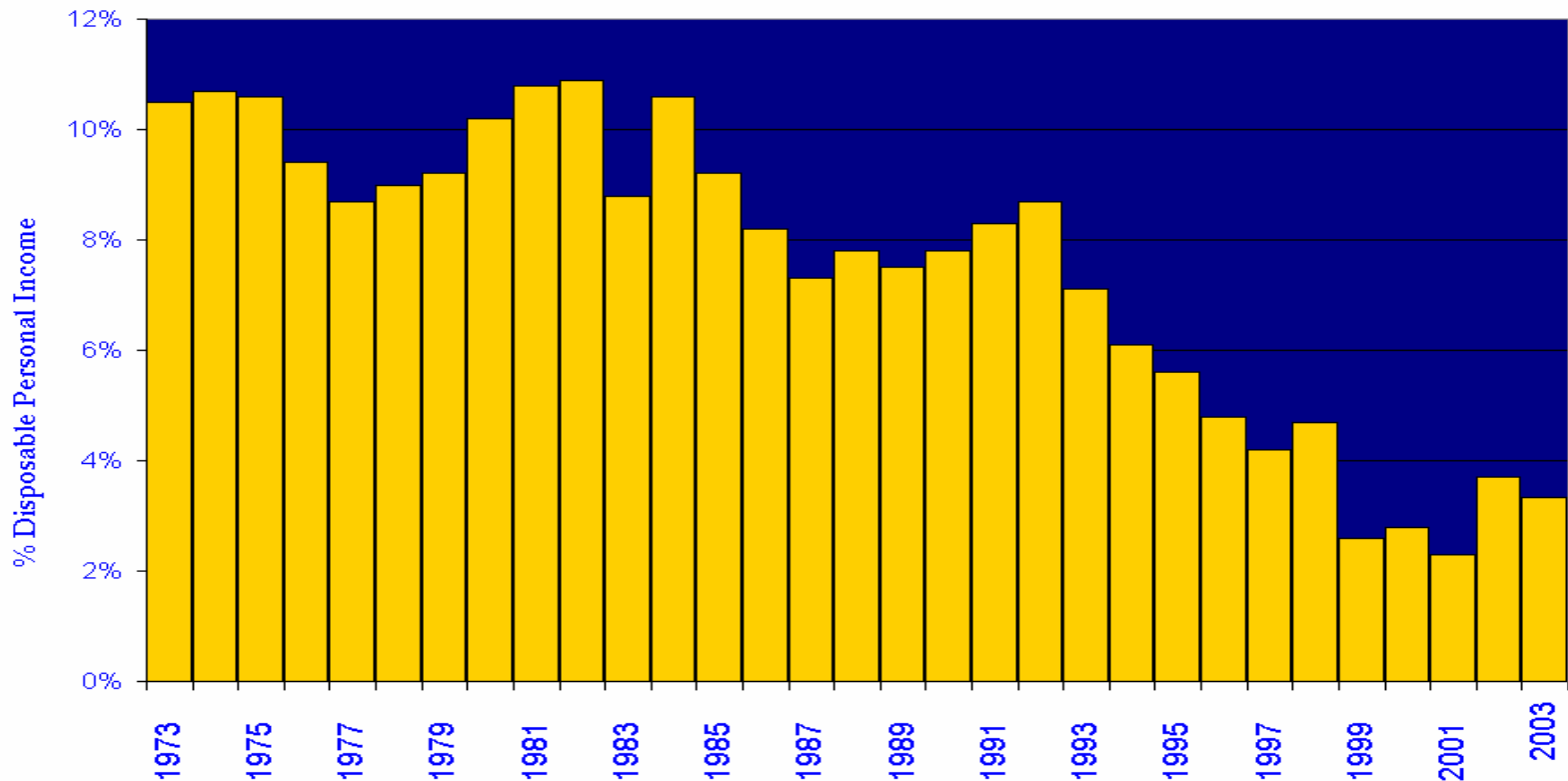
Pensions

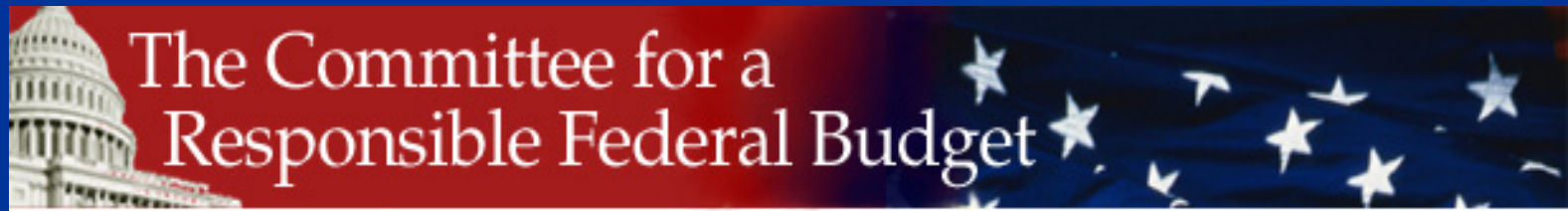
- Only half of workers are covered
- Tax treatment creates “upside down” incentives

Saving

- Anemic saving rates
- The presence of Social Security depresses personal saving
- Structural public sector deficits

Personal Saving Rate

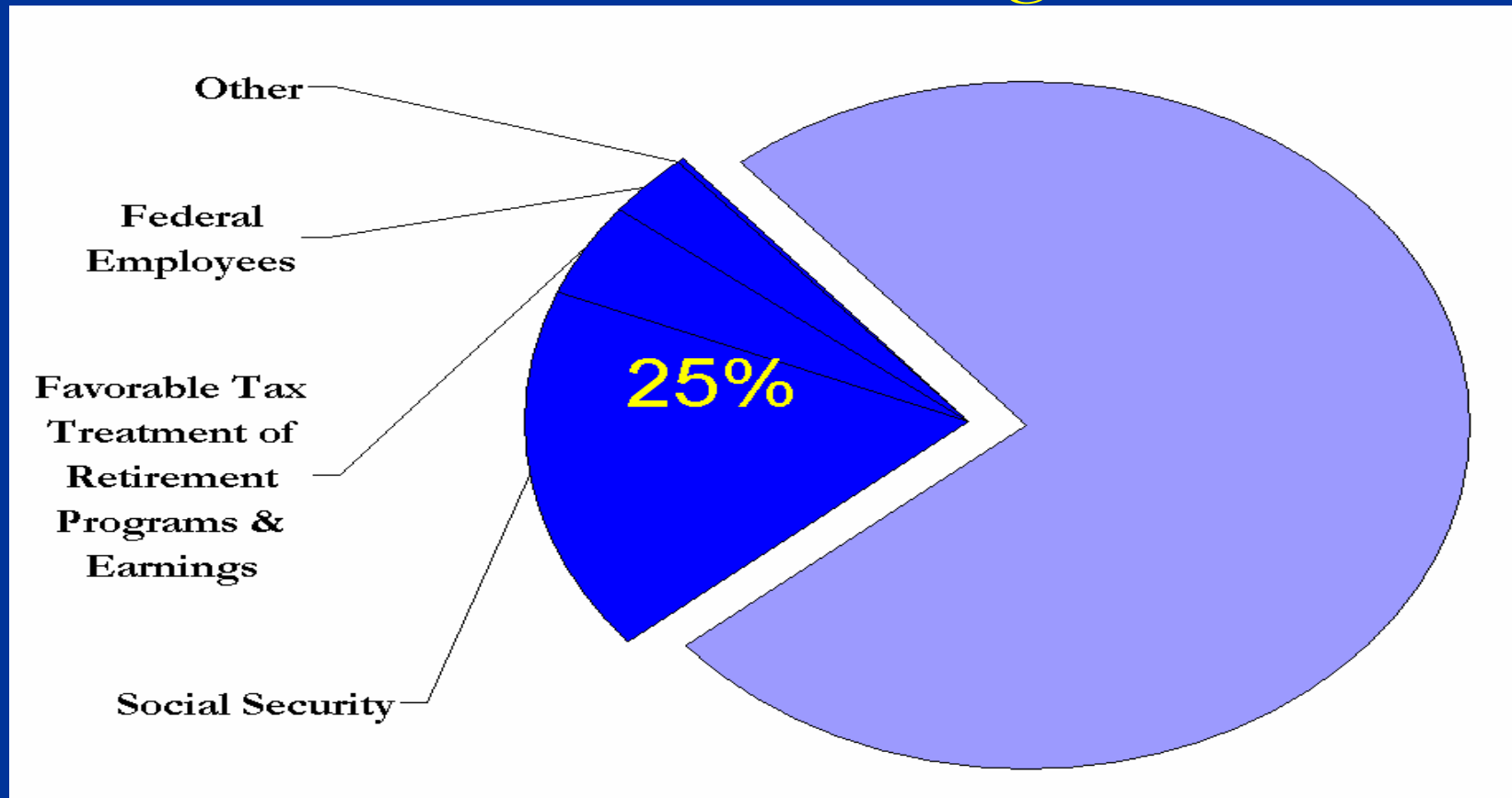




Objectives of Reform

- Making Social Security sustainable
- Balancing competing claims on resources
- Providing adequate benefit levels
- Strengthening the economy
- Spreading the costs fairly

Retirement Budget

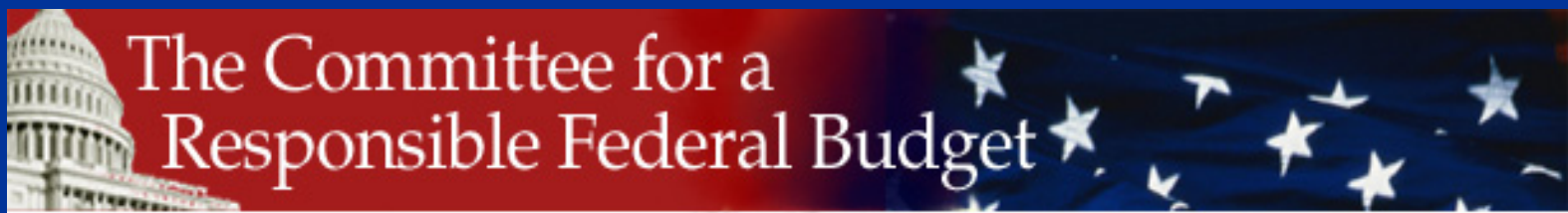


Note: Includes direct spending and tax expenditures.

Major Areas of Disagreement

Policies

- Benefit Cuts v. Revenue Increases
- Defined Benefit v. Defined Contribution
- Pre-Funding v. Pay-as-you-go



Major Areas of Disagreement

IF ... pre-funding

- Government v. Individual

IF ... individual accounts

- Benefit Cuts v. Revenue Increases v. Borrowing
- Government Risk v. Individual Risk
- Regulations v. Choice