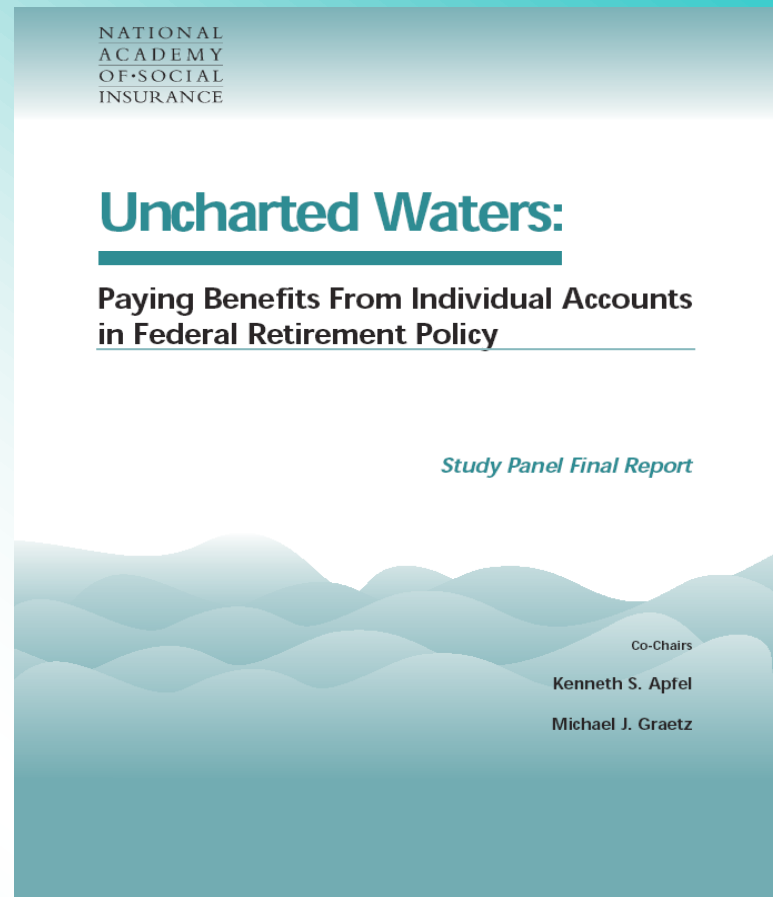


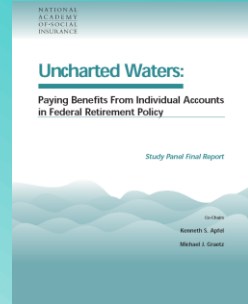
Paying Benefits from Individual Accounts in Federal Retirement Policy

NASI's 2005 Study Panel Report

(Ken Apfel 2017 NASI presentation)



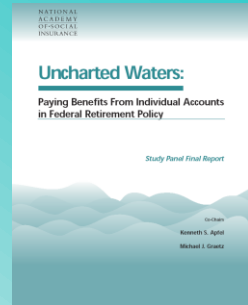
Payout Questions are Important



- ❖ **Who gets access to the funds -- and when and how do they get paid?**
- ❖ **What happens when the account holder retires, dies or becomes disabled?**
- ❖ **What do family members receive? What rights do family members have to the accounts?**

If there's a future debate on individual accounts (I hope not!), payout issues must be addressed -- and would have major distributional implications.

Framework for Analyzing Payout Rules



- ❖ Purpose of accounts?
- ❖ Are contributions mandatory or voluntary?
- ❖ Are account funds from current Social Security taxes or new contributions?
- ❖ How do they relate to the size and structure of Social Security benefit?

Should annuities be

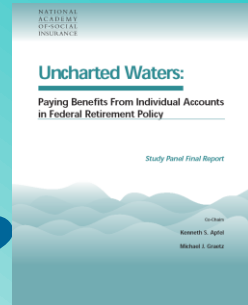
required for individual accounts?

An individual account can be viewed as closer to “property” than Social Security, so should people have more payout options?

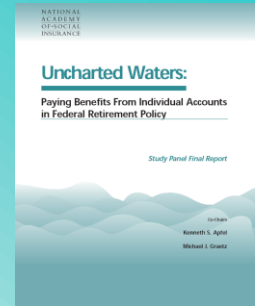
Is the answer different if a carve-out or an add-on?

- ❖ *Pros: People can’t outlive their money. Mandatory annuities cost less on average.*
- ❖ *Cons: Mandatory annuities would make some people (e.g. short-lived) worse off. Limits choice.*

Report shows trade-offs and options: (1) broad access to retirement funds; (2) mandatory annuities (3) annuities, but only up to some level.



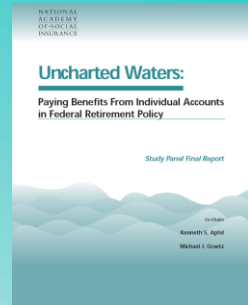
Should Early Access to IA's be Allowed?



- ❖ **Will account holders be able to withdraw funds before retirement? There will likely be pressure to expand access over time.**
- ❖ **Early access only for certain purposes: hardship, medical care, home purchase, education?**
- ❖ **What are financial implications of early access for workers and families? Do family members have a voice in whether workers can access funds?**

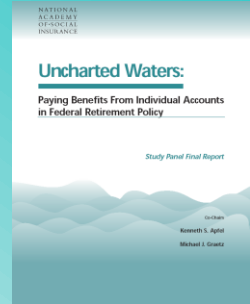
What are the distributional implications of various early access designs?

EXAMPLE: Disabled Account Holders' Early Access?



- ❖ **With Social Security, disabled workers must wait at least five months to receive benefits, with a two-year wait to qualify for Medicare. Plus dependents benefits.**
- ❖ **Should terminally-ill beneficiaries be allowed early access to individual accounts?**
- ❖ **A smaller account is very likely if work life is cut short due to disability. Also smaller family and survivor benefits.**

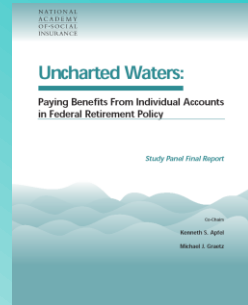
If individual accounts are part of Social Security...



There are many issues for disabled workers and family members, including:

- ❖ **How will accounts affect defined benefits from Social Security?**
- ❖ **What rights would families and disabled workers have to the accounts?**
- ❖ **When can they exercise those rights?**
- ❖ **Who wins/loses?**

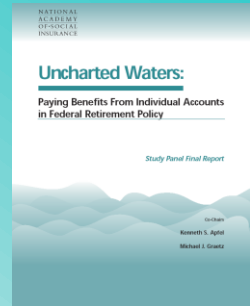
If accounts are NOT part of Social Security...



If new individual accounts are not part of Social Security, issues about disability and families still remain important.

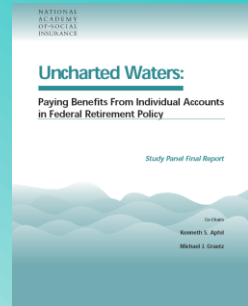
- ❖ **Precedents exist for family rights in IRAs, pensions, 401(k)s, and state family law with regard to property rights.**
- ❖ **Which rules to apply?**
- ❖ **Who wins/loses?**

Precedents for Determining Spousal Rights



- ❖ Social Security has benefit rules for spouses
- ❖ Different federal rules for private pensions, 401(k)s, and IRAs.
- ❖ State family property rights:
 - ❖ Common law & community property states
- ❖ How would spousal rights be addressed during marriage? At divorce? At the account holder's death? Determination of family status needed throughout worker's career vs. when SS benefits are claimed?

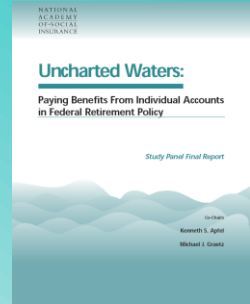
Children's Benefits and Individual Accounts



- ❖ Children's benefits could possibly be shielded from reductions (not easy).
- ❖ Reductions in traditional Social Security benefits for children could be designed in various ways.
- ❖ To make up for reductions, families could be required to purchase private life insurance, but adding a new insurance mandate faces obstacles!
- ❖ Would, or should, children—including disabled adult children—have any special rights to an account if a parent dies?

Who are winners/losers under various scenarios?

How to Handle “Offsets” if Voluntary Accounts?

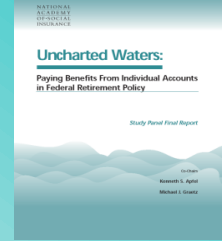


Voluntary S/S accounts necessitate creating rules for worker-specific offsets:

- ❖ **Administrative complexities are significant.**
- ❖ **If accounts are divided at divorce, should offset obligations also be divided?**
- ❖ **Will offsets apply to disability benefits, or only to retirement benefits?**
- ❖ **What offset policy is most appropriate for young survivor families?**

What are the distributional implications of alternative “offset” policies?

Payout Questions are Important



- The point of retirement security policy is to ensure some level of adequate income. Questions for IA's:
- ❖ *Who gets paid and when/how do they get paid?*
 - ❖ *What happens when the account holder retires, dies or becomes disabled?*
 - ❖ *What do families actually get and what are their rights?*

ANY PROPOSED IA PLAN MUST DEFINE PAYOUT RULES, AND ANY PROPOSED IA DESIGN WILL HAVE IMPORTANT DISTRIBUTIONAL IMPLICATIONS.

NASI REPORT FRAMED MANY KEY ISSUES – BUT MORE DISTRIBUTIONAL WORK IS NEEDED IF THE ISSUE OF INDIVIDUAL ACCOUNTS REENTERS THE DEBATE.¹²