

Quantifying the Inefficiency of the US Social Security System

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How far is the US social insurance system from an efficient system? We answer this question within a model where agents receive idiosyncratic, labor-productivity shocks that are privately observed. When social security and income taxation comprise the social insurance system, the maximum possible efficiency gain is equivalent to a 10.5 percent increase in consumption. This occurs when labor productivity differences are set to the permanent differences estimated in US data.