

Education, Marriage and Social Security

Job Market Paper

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Abstract

The optimal design of the retirement system has been a topic of discussion in the last few decades, primarily due to the current financial state of the social security system. However, the retirement system, set up in the year 1935, was based on the society that existed then of single-earner couples, where there is household specialization with one spouse participating in market work and the other spouse in home production. Given the sharp decline in marriage rates as well as a rise in female labor force participation, this paper seeks to answer three main questions: (a) what is the effect of spousal benefits and payroll tax on education and marriage? (b) will the current system make the GenX (born in 1970-79) worse off than the Silent generation (born in 1940-49)? (c) how does incorporating education and marriage responses to retirement policy change the optimal tax and retirement policy? To this end, we first document the dependence of individuals on the social security system using the CPS and restricted Health and Retirement Survey (HRS) data. We then develop a life-cycle model with endogenous human capital accumulation, consumption, savings, labor force participation, and marriage and estimate welfare under the current regime of the retirement system as well as compare it with counterfactual regimes: a system which is marriage neutral (no spousal or survivor benefits); a system with caregiver benefits. A system without spousal benefits in a partial equilibrium marriage market setting leads to a rise in college attainment as well as a rise in singlehood rates.

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