Author's Accepted Manuscript

www.elsevier.com/locate/eer

Families and social security

Hans Fehr, Manuel Kallweit, Fabian Kindermann

PII: S0014-2921(16)30146-5
DOI: http://dx.doi.org/10.1016/j.euroecorev.2016.09.007
Reference: EER2908

To appear in: *European Economic Review*

Received date: 10 November 2015
Accepted date: 9 September 2016

Cite this article as: Hans Fehr, Manuel Kallweit and Fabian Kindermanr Families and social security, *European Economic Review* http://dx.doi.org/10.1016/j.euroecorev.2016.09.007

Families and social security

September 20, 2016

Hans Fehr*
University of Wuerzburg, Netspar and CESifo Manuel Kallweit VDA
Fabian Kindermann
University of Bonn and Netspar
September 2016

Abstract

The present paper quantifies the importance of family insurance for the analysis of social security. We therefore augment the standard overlapping generations model with idiosyncratic labor productivity and longevity risk in that we account for gender and marital status.

We simulate the abolition of pay-as-you-go pension payments, calculate the resulting intergenerational welfare changes and isolate aggregate efficiency effects for singles and families by means of compensating transfers. We find that abolishing social security creates significant efficiency losses which are substantially higher for singles compared to married couples. A decomposition of the efficiency loss reveals that this difference can be almost exclusively attributed to the insurance role of the family with respect to longevity risk. Neglecting differences in family structure when studying the privatization of social security, one overestimates the long run change in the capital stock by about 40 percent, the decline in labor supply by about 30 percent and the aggregate efficiency loss by even 36 percent. Given rising divorce rates and less stable marriages in almost all Western societies, our results also indicate that social security should not be reduced but strengthened in the future.

jel : J12, J22 keywords: stochastic general equilibrium, home production, family insurance