STAYER ECO 450 Week 6 Quiz 4 Ch 8 and 9

1. **The Social Security pension system is a fully funded retirement plan.**

2. **Social Security pension benefits are transfers from workers to retirees.**

3. **Social Security pensions are financed by voluntary contributions by workers.**

4. **The gross replacement rate measures the ratio of taxes paid per year by workers to their annual Social Security pension when they retire.**

5. **In the year prior to retirement, a worker earned $20,000 and paid $5,000 in taxes on those earnings. His annual Social Security pension is $10,000 per year. Then it follows that his net replacement rate is 50 percent.**

6. **The gross replacement rate for Social Security pensions is the same for all workers independent of their preretirement earnings.**

7. **The annual growth in wages subject to Social Security taxes is 3 percent. Given the payroll tax rate, the growth in funds available to pay pension benefits is also 3 percent.**

8. The asset-substitution effect of Social Security pensions discourages saving.

9. The availability of Social Security pensions to workers over normal retirement age results in an income effect unfavorable to work but no substitution effect.

10. The bequest effect of Social Security encourages workers to save less.

11. The normal retirement age for Social Security old-age pensions is 67 for people born in the United States in 1960 or later.

12. Workers in the United States can retire under Social Security at age 62 with lower pensions than they would receive at their normal retirement age.

13. As of 2009, retired workers between the ages of 62 and their normal retirement age were subject to an "earnings test" that reduced their pension by $1 for each $2 of earnings after a certain minimum level of earnings.

14. Reducing the replacement rate will have no effect on the tax rate necessary to finance pensions under a pay-as-you-go, tax-financed pension system.

15. Workers who quit their jobs are eligible for unemployment insurance benefits in the United States.

16. By 2050, the expected percentage of the U.S. population that is considered elderly will be less than 20%.

17. Social Security was created in 1965.

18. On average, the elderly are less likely to be poor when compared to the rest of the U.S. population.

Multiple Choice Questions

1. The Social Security retirement system:

a. is a fully funded pension system.

b. is a tax-financed system that pays benefits from taxes that are invested to return principal and interest to workers when they retire.

c. is a tax-financed retirement system that finances pensions by taxing workers each year and transferring the bulk of revenues obtained directly to retirees.

d. does not use taxes on workers to pay pensions to retirees.

2. The gross replacement rate:

a. measures a worker's monthly retirement benefit divided by monthly earnings before taxes in the year prior to retirement.

b. measures a worker's monthly retirement benefit divided by monthly earnings after taxes in the year prior to retirement.

c. is an increasing function of gross monthly earnings prior to retirement.

d. is independent of gross monthly earnings prior to retirement.

3. A worker earns $2,000 per month before taxes. He pays $140 per month payroll tax on those wages. In addition, the income taxes on those wages are $360 per month. On retirement, the worker receives a Social Security pension of $750 per month. Which of the following statements is true?

a. The worker's gross replacement rate is 50 percent.

b. The worker's net replacement rate is 50 percent.

c. The worker's net replacement rate is 38 percent.

d. The worker's net replacement rate is 75 percent.

4. The growth in hourly wages over the past 50 years has averaged about 2 percent per year. However, the growth in Social Security pensions has far exceeded this 2-percent rate. The growth in tax revenue to finance Social Security benefits in excess of 2 percent per year can be accounted for by:

a. increases in payroll tax rates.

b. use of other taxes beside the payroll tax to pay Social Security benefits.

c. an increase in the number of workers paying Social Security taxes.

d. either (a) or (b)

e. either (a) or (c)

5. Given the structure and level of gross replacement rates and the expected future growth of labor earnings subject to the payroll tax, the tax rates used to tax payrolls were increased in the 1980s because:

a. the number of retirees per worker will increase.

b. the number of retirees per worker will decrease.

c. wages are expected to decline.

d. the size of the work force is expected to increase.