Comments: Social Security Redistribution

Gustman, Steinmeier, and Tabatabai

Olivia S. Mitchell
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Prior very influential study (G&S 2000):

• First HRS cohort (b 1931-41) showed:
  - Individual Soc Sec benefits redistributive (lifetime rich to lifetime poor), BUT…
  - Little redistribution when take HH into account.
    ➢ Mostly due to heavy subsidies to stay-at-home women in traditional couples.

  - “[G]eneral perception that …redistribution from the rich to the poor is accomplished by the progressive SocSec benefit formula is greatly exaggerated.”

  - Surprised many!
This study:

- Compares first HRS wave (b 1936-41) with more recent cohort (b 1948-53)
- Much changed over 12-year period:
  - Real labor earnings ↑.
  - SS taxes & benefits ↑, rules changed (e.g. NRA ↑)
  - More wives worked longer for pay.
  - Other variables: interest rates, life tables, family structure.
- They report changes in summary measures “whatever the cause.”
### Results: New vs Old HRS cohort taxes & benefits ↑, Individual > Household (T4)

<table>
<thead>
<tr>
<th>Lifetime taxes (04/92)</th>
<th>Lifetime benefits (04/92)</th>
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</thead>
<tbody>
<tr>
<td>Men</td>
<td>1.37</td>
<td>1.13</td>
<td>1.86</td>
<td>1.62</td>
<td>1.53</td>
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<tr>
<td>Women</td>
<td></td>
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<tr>
<td>Household</td>
<td></td>
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<td>1.30</td>
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</tbody>
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### Redistribution across AIME deciles (2004$)

- Focus on benefits relative to taxes
  - Lowest 10% group
    - '92: paid $2K, got ~0
    - '04: paid $7K, got $10K \(\text{more redist to bottom}\)
  - Highest 10% group
    - '92: paid $257K, got $196
    - '04: paid $399K, got $225K \(\text{more redist from top}\)
- Also IRR (return on taxes paid) 2\textsuperscript{nd}/9\textsuperscript{th} AIME decile at median
  - '92: 5.1% / 2.0%
  - '04: 3.3% / 0.7%
Questions/Suggestions

• AIME levels rose in real terms over time – a rubber yardstick? Suggest constant real poverty line, or fix brackets in real terms, to look at redistribution.

• Sensitivity to computing from age 20 on: discount rate & mortality tables

• How important are imputations? no SocSec links for some workers & divorced/widowed

• Inclusion of DI taxes/benefits $\rightarrow$ ↑ transfers to the lifetime low-wage?

• Include Medicare/Medicaid: net impact?

• Future: Can model impact of SocSec insolvency and reform options?

Thank you!

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