Discussion of “How Does Personal Income Tax Affect the Progressivity of OASDI Benefits?"

SSA Retirement Research Consortium
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What I love about this paper

- Distributions by AIME Decile
  - For both individual and family-unit basis
  - More informative than a single summary measure (GINI)
- Breaks new ground
  - Mixing income tax and payroll tax aspects
  - Attempts to adjust payroll tax for
    - Tax treatment of employer payroll tax
    - Incidence of EITC
    - Income Tax on Benefits
OASI Worker Benefit Share – OASI Payroll Tax Share

Net Benefit Concept-----Adds across deciles

A: Individual----Measure of Redistribution by Own-AIME Decile

Own Share of Retired Worker Benefits - Own Share of OASI Payroll Taxes

Baseline
Exclusive of employer tax
EITC
Benefits Taxed

Own-AIME Decile
Individual Distribution

- Lowest decile negative because of uninsured workers
- Treatment of employer payroll tax and EITC slightly compresses distribution
- Effect of income tax on benefits seems most relevant---
  - Expands the distribution, as expected
B: Family---Measure of Redistribution by Family-Unit-AIME Decile

Family-unit Share of Total OASI Benefits - Family-unit Share of OASI Payroll Taxes

-7%  -6%  -5%  -4%  -3%  -2%  -1%  0%  1%  2%  3%  4%

Family-Unit-AIME Decile

Baseline
Excsive of employer tax
EITC
Benefits Taxed
Family-Based OASI Benefits
—All received by the individual

- Including spouse and survivor benefits
  - Boosts lowest deciles
  - Makes lowest decile positive
  - Compresses distribution

- Taxation of benefits again expands the distribution
A couple of Issues with Deciles

- Individual Deciles are OWN AIME
- Family Deciles combine spouses AIME
- So—individual/family not consistent
- and family units inconsistent
  - If 20% of elderly are “individuals, then
    - They are 33% of family-units
    - ½-person unite inconsistent.
- COULD—do own OASI benefits-own taxes
  - Deciles by own AIME
Individual vs. Family-based Benefits at Baseline—
Seems to tell much more than GINI

C: Measures of Redistribution by AIME Decile
Own/Family Share of OASI Benefits - Own/Family Share of OASI Payroll Taxes

Own-AIME / Family-Unit-AIME Decile

-7% -6% -5% -4% -3% -2% -1% 0% 1% 2% 3% 4%

Individual
Family
More I would love to see---
Ratios would eliminate bias at higher
deciles. More even comparison?

D: Ratio of PV RetWkr/FamilyOASI Benefits
to PV Own/Family OASI Payroll Taxes ?????????

![Graph showing the ratio of PV RetWkr/FamilyOASI Benefits to PV Own/Family OASI Payroll Taxes across different deciles. The graph compares Individual and Family categories.](chart.png)
A few additional thoughts

- Simulate effect of taxes on benefits for lower future thresholds---ultimately zero
- Consider that about 10% of OASI tax is for DI conversions, not considered here
- Consider relatively higher probability of disability for lower AIME workers---Hard to really evaluate OASDI “moneysworth” separately by OASI and DI
- Consider changing future marginal income tax brackets---will there be bracket creep?