



Key Factors Influencing Income Redistribution from Social Security

From Income Redistribution from Social Security

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Mortality and socioeconomic status

Even though the Social Security benefit formula favors the poor, those with higher incomes and more education tend to have greater life expectancy and thus receive benefits for more years.

Income measures

Numerous methods used to measure income affect redistribution estimates. Among them:

Annual versus lifetime income

Measuring lifetime income corrects for the inaccurate classification of some elderly and young individuals as poor, since annual income is only a snapshot view.

Covered versus total earnings

The rich come out ahead when total earnings, rather than only earnings below the cap for Social Security, are taken into account.

Potential versus actual income

Social Security is not as favorable to the poor as many have long assumed when value is assigned to work within the home by nonworking spouses and others who do not have thirty-five years of earnings.

Individual versus family income

Assigning each individual a share of household income has the same effect.

Discount rate

The higher the discount rate—which provide a means of valuing in comparable monetary units all of the Social Security taxes paid and benefits received at different times—the less Social Security appears to benefit low-income retirees.

Retirement age

Assuming a uniform retirement age should not matter as long as early benefits are valued at an appropriate discount rate and mortality estimates are income differentiated.

Cohort

Since each cohort experienced changes in government policies about covered employment and net tax rates at different points in their working lives and is affected differently by these changes, estimates of within-cohort redistribution vary for different cohorts.

Behavioral effects

Studies that assume Social Security policy does not influence individual behavior may be biased since expected benefit levels could affect decisions about labor force participation, age of retirement, and savings.