

Federal Redistribution: Supplementing Point-in-Time Analyses with a Lifetime View

Presentation for Tax Policy Center Event
“Measuring the Distribution of Spending and Taxes”

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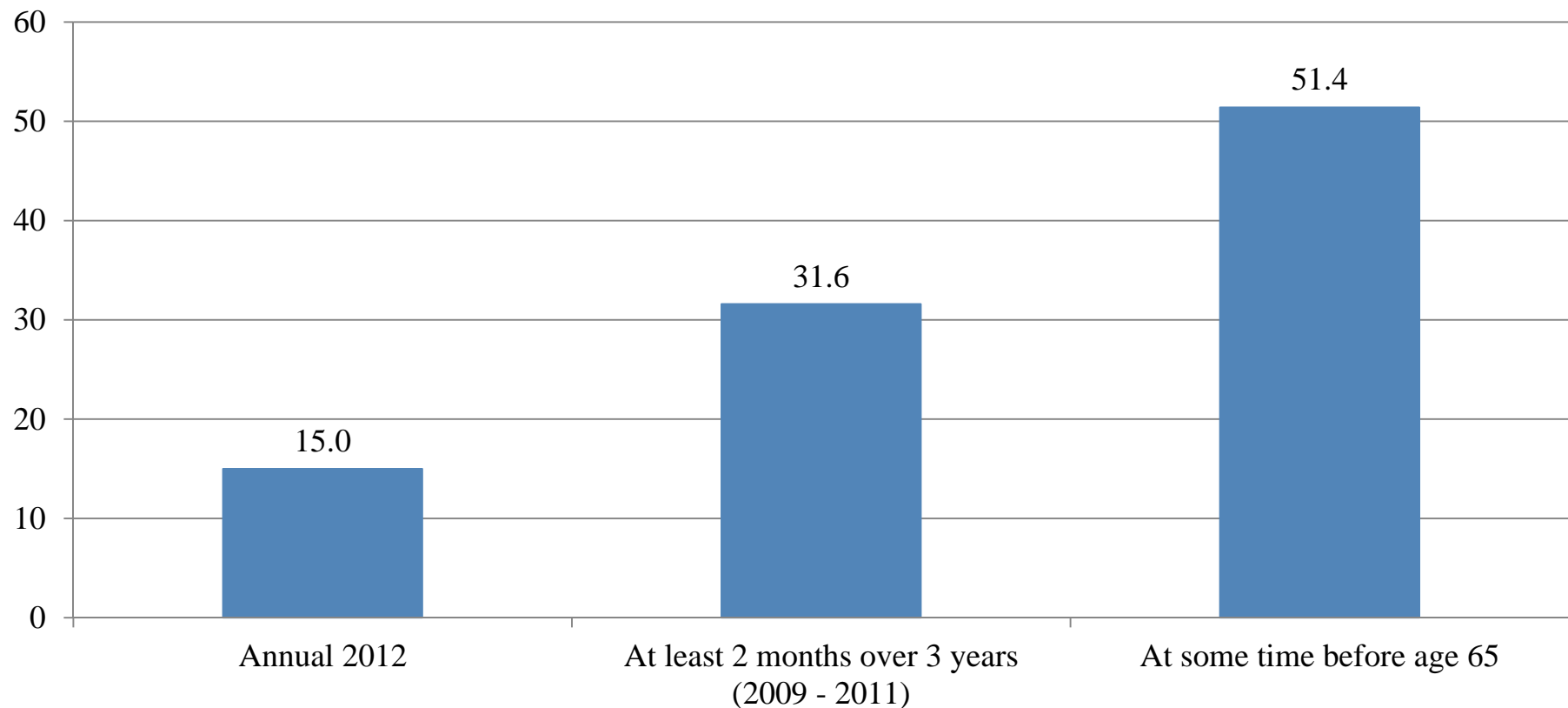
Motivation

- Well-being is better measured based on **lifetime** earnings/income rather than point-in-time earnings/income
- “Insurance company with a standing army”:
analysts often evaluate insurance through expected value (actuarial fairness, insurance value)
 - Requires looking at tax contributions (payroll, personal income, other) and benefits over a **lifetime**, not just at a point in time
 - Separate analyses by age partially address this



Poverty at a point in time and over longer periods

Shares in Poverty Using Different Accounting Periods

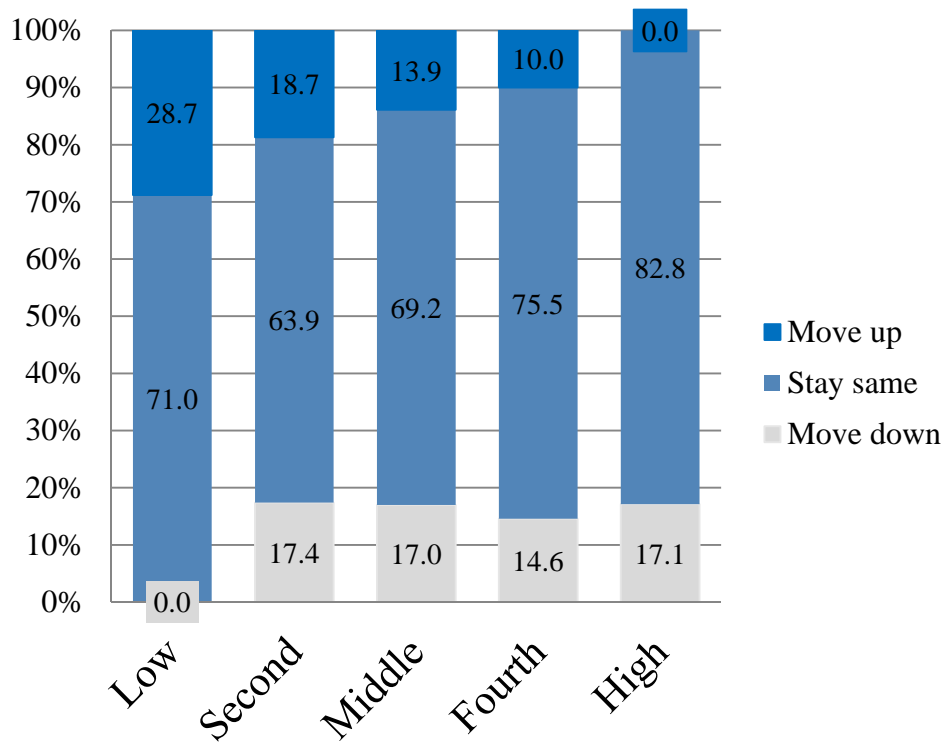


Sources: DeNavas-Walt, Proctor and Smith (2013), Rank and Hirschl (1999)

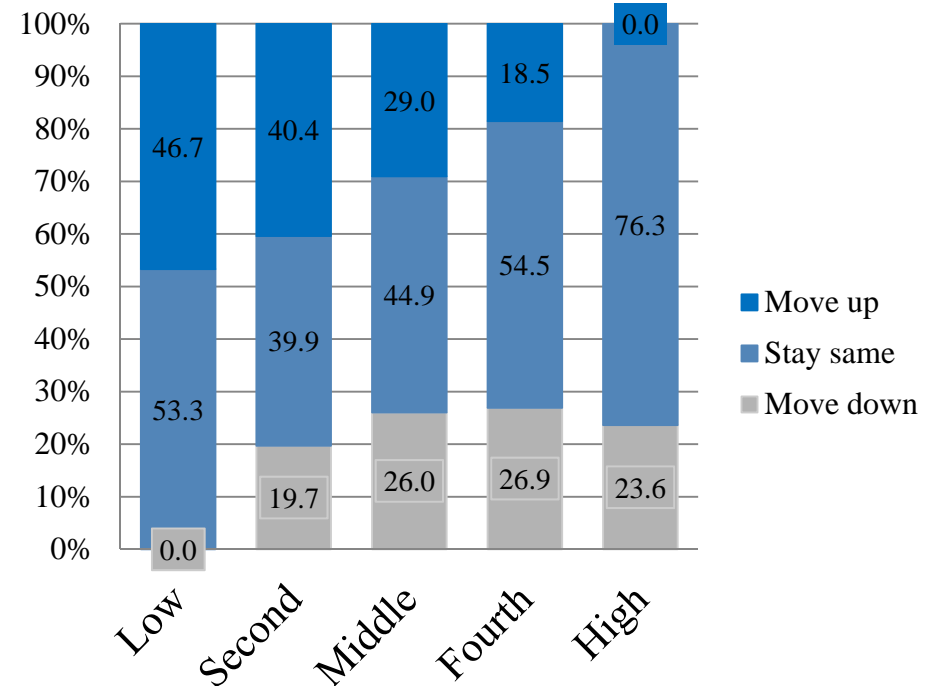


Transitions between quintiles similarly differ by accounting period

**Current Earnings Quintile Compared to Last Year:
Men Ages 30-54**



**Current Earnings Quintile Compared to Average of Last 10 Years:
Men Ages 30-54 Who Worked at Least 6 of Last 10 Years**



Source: Favreault and Haaga (2013) based on Survey of Income and Program Participation matched to earnings records



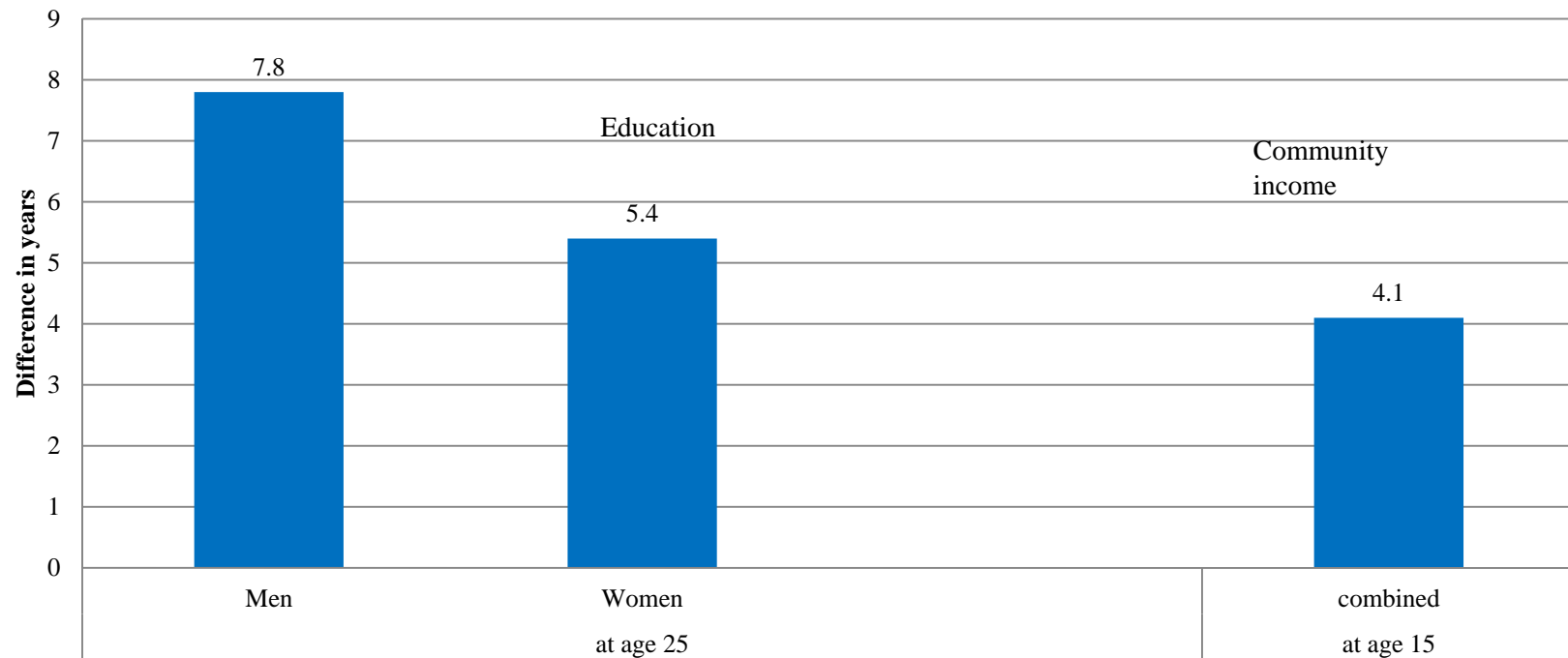
Why do relatively few analysts examine redistribution over a lifetime?

- Enormous data demands
 - A girl born in 2000 can expect to live for 85.7 years
 - Few panel data sources
 - Can use administrative data; privacy concerns limit
- Families/tax units change over time
- Sensitive to assumptions, including about many things that have not yet happened
 - Current law vs. current policy
 - Interest (“discount”) rates, mortality, earnings inequality
 - Inclusion of migrants, those who die early, etc.



Mortality differs greatly by social status, affecting lifetime redistribution

Life Expectancy Difference by Economic Status



Sources: Meara et al. (2008); Singh and Siahpush (2006)



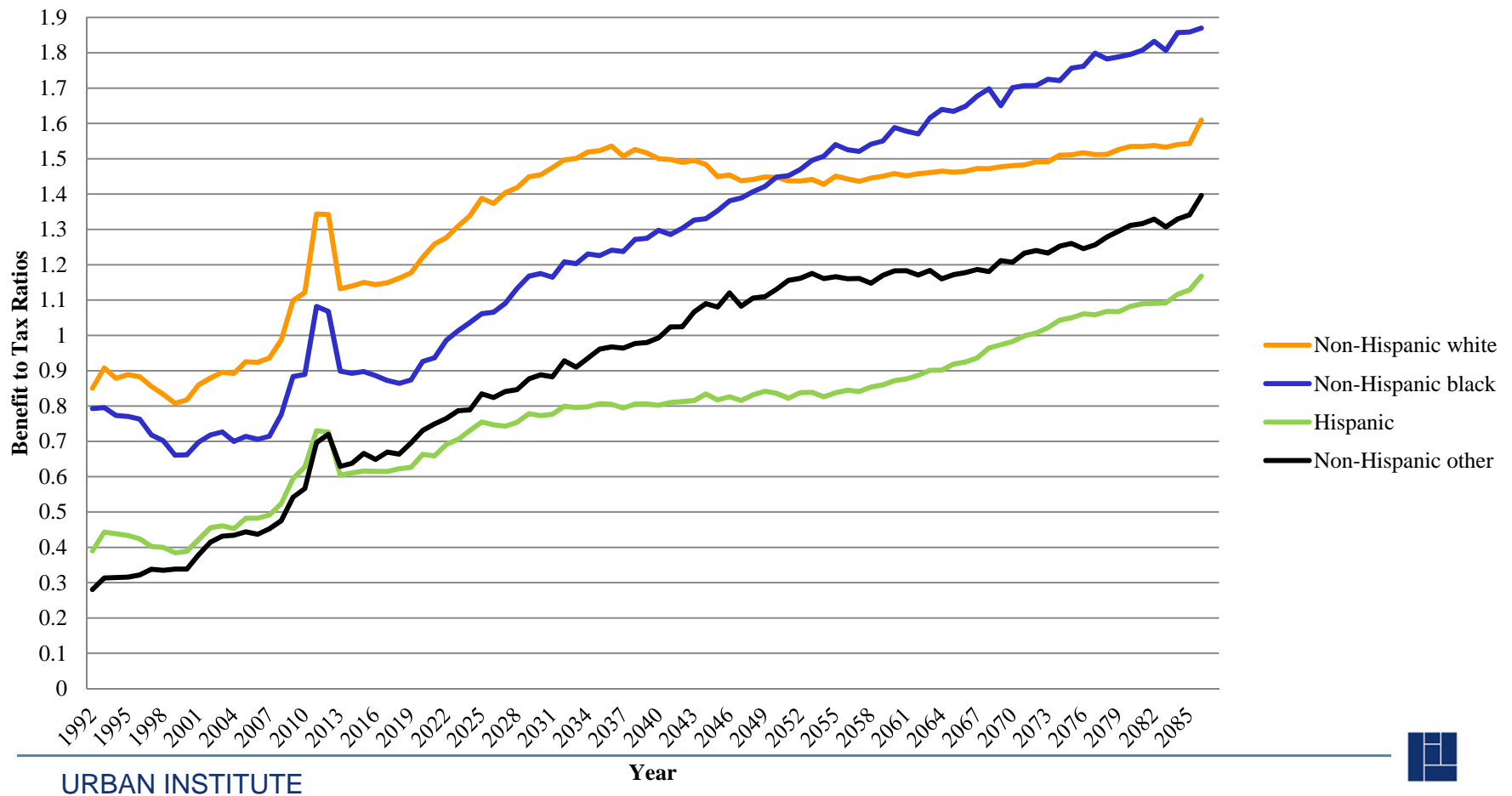
Example: Contrast Social Security at a point in time vs. on a lifetime basis

- Just one component of federal budget, but large
- Tax side
 - Flat payroll tax (subject to maximum, \$117,000 in 2014)
 - Taxation of benefits for higher income beneficiaries
- Benefit side
 - Retirement, survivor, and disability benefits
 - Marriage-based benefits and children's benefits
 - Mortality (increasingly disparate by income)
- Will look by race/ethnicity



A cross-sectional view of Social Security redistribution

Aggregate Benefit to Tax Ratios by Year and Race/Ethnicity



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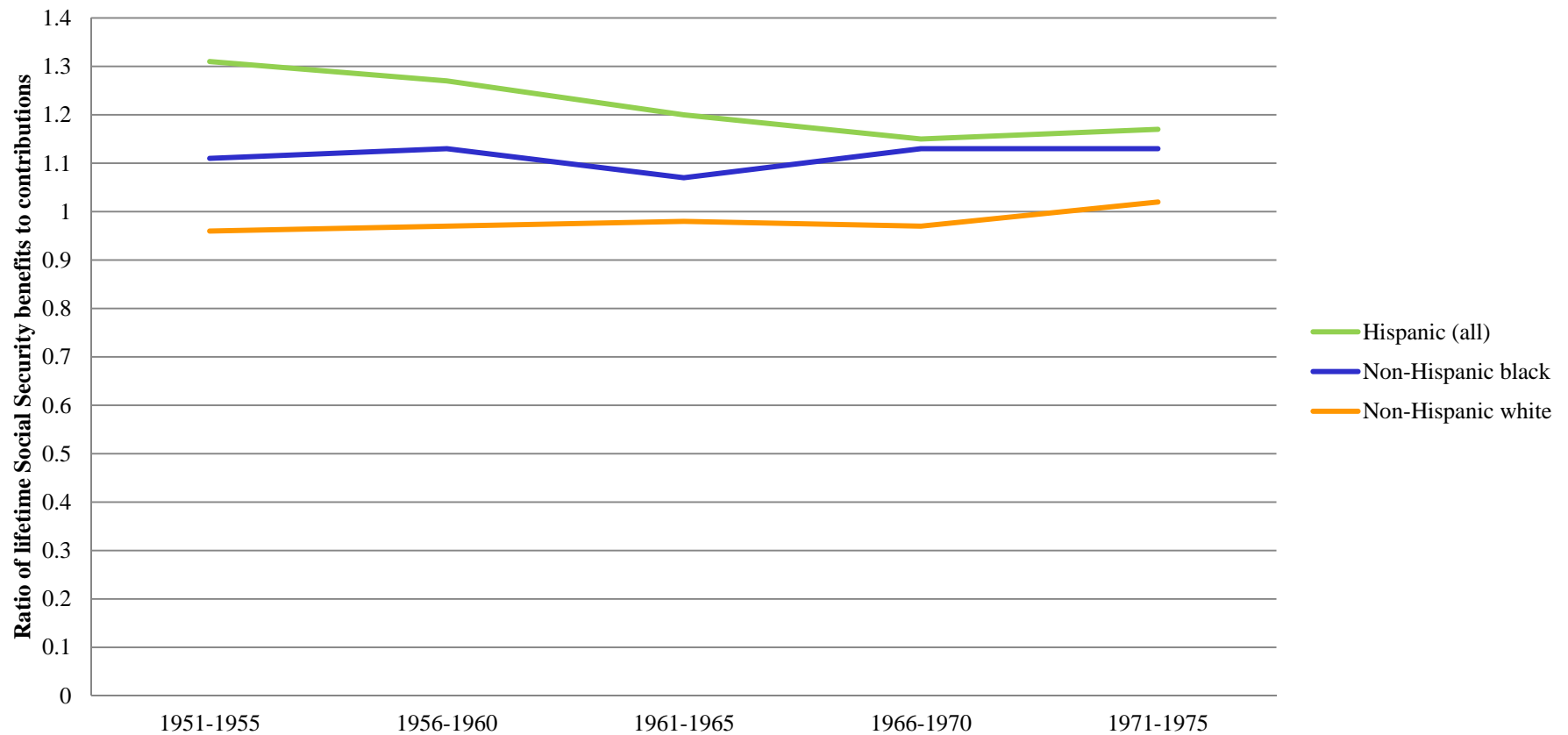
Year



Source: Based on Steuerle, Quakenbush, and Smith (2013)

A lifetime view of Social Security redistribution

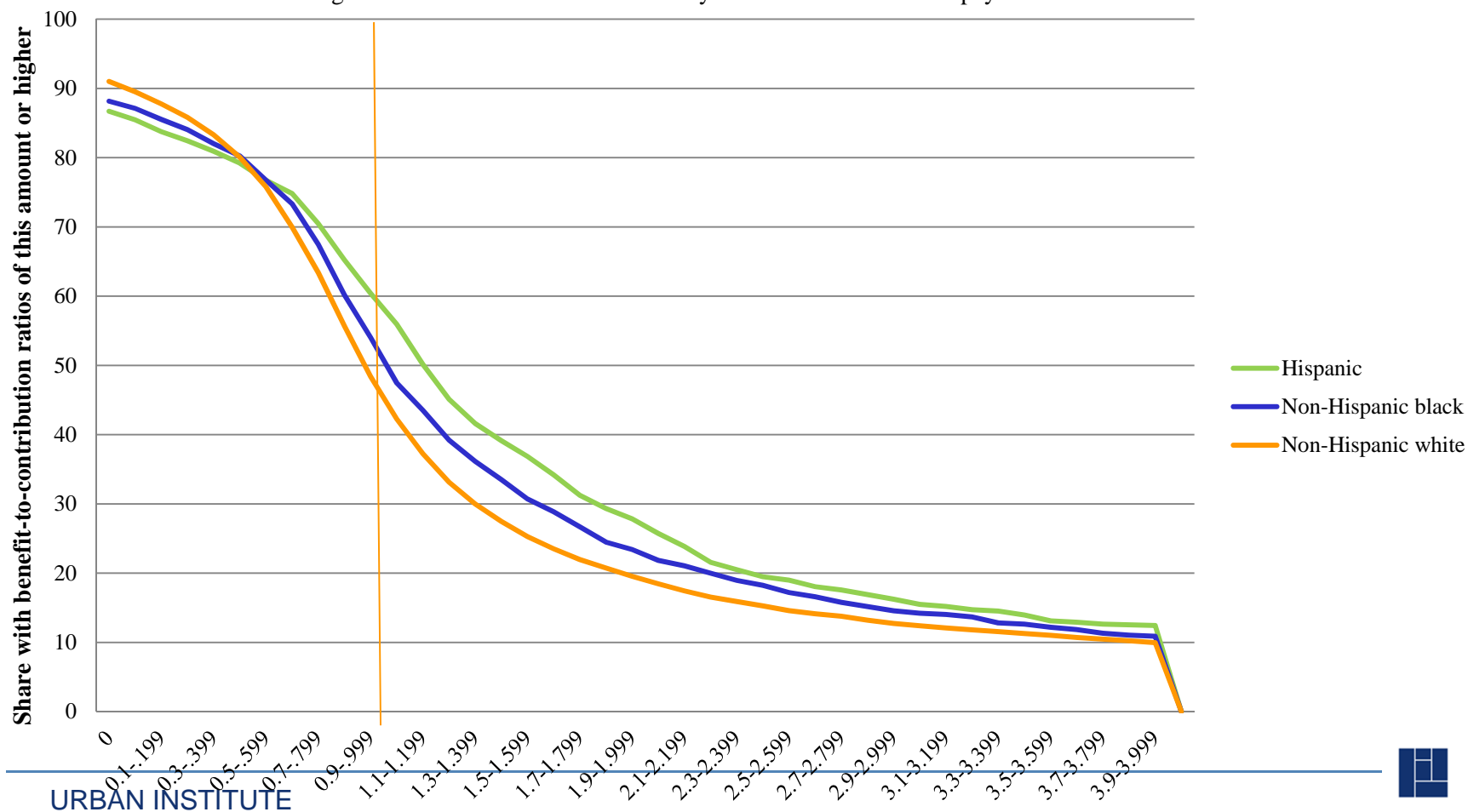
Lifetime Benefits to Contributions by Birth Year and Race/Ethnicity



Distribution versus mean or median: lifetime perspective

Distribution of the Ratio of Lifetime Benefits to Contributions

Ratio of 1 or higher indicates lifetime Social Security benefits exceed lifetime payroll taxes



Conclusions

- Looking at cross-sections alone gives an incomplete picture of redistribution
 - Many of us are likely to be poor at some point, to change income or earnings quintiles, and to face risks
 - Lifetime calculations are difficult but necessary
- Looking at measures of central tendency (mean or median) alone masks diversity within groups like quintiles or broad age groups
 - A high group-specific mean may result from a subset of that group having very high outcomes , even though many or even most individuals in the group do not



Interpretation

- Big-ticket budget items (Medicare, Social Security, and Medicaid)
 - Manage lifetime risks, especially from very large shocks to income
 - Health crises that will incur massive debts absent insurance
 - Permanent disability
 - Long-term unemployment
 - Affect multiple generations
 - Aged “pre-paid” benefits with decades of payroll taxes (“earned right”): majority have at least 35 years of contributions
 - Public redistribution to aged reduces need for private transfers



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