Social Security & Vulnerable Populations:

Assessing the Distributional Affects of Social Security Policy Changes

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GLOBAL POLICY SOLUTIONS

Overview

- 1. Introduction
- 2. Methodology
- 3. Results
- 4. Discussion
- 5. Conclusion

Introduction

- The Social Security reform debate has focused on who wins and who loses under the current system.
- Although the Social Security benefit formula is neutral on its face, the program also differently affects people based on variables such as race and ethnicity, marital status, income, and gender.

Methodology

- Goal: to assess the distributional effects of Social Security policy changes by education level, gender, and race and ethnicity.
- Data generated by Urban Institute's DYNASIM3, a micro-simulation model
- 1990 to 1993 Survey of Income and Program Participation (SIPP)
- Types of policy changes are explored: 1) those that seek to make adjustments to current scheduled benefits; 2) those that seek to alter payroll taxes; and 3) those that include an individual account component.

Methodology

- Parameters were set to ensure that each benefit- and tax-change scenario would eliminate half of the annual Social Security deficit in 2050.
- The individual account scenarios were designed to generate the same level of net benefits in 2050 as the benefit change scenarios.
- Except for the tax change scenarios, the data relating to individuals born between 1976 and 1980 and surviving until at least age 30 allowed for an analysis of lifetime shared benefits.

Limitations

- Imputed data
- Doesn't assess distributional impact of policy changes on all benefit types (e.g. disability, child survivor)
- Simulated averages mask distribution of changes on population subgroups
  - Underestimates loss of benefits to subgroups who die younger
  - Cannot estimate what happens to those who are unable to qualify for disability benefits and unable to work prior to early or normal retirement age

Policy Scenarios

Benefit Changes	Tax Changes	Individual Accounts
•Raising Retirement Age to 69.7 •Raising retirement age to 70 with minimum benefit •Price Indexing •Reducing COLA	•Raising payroll tax 2% •Raising cap on payroll tax to $250K	•Individual accounts with price .54% indexing •Individual accounts with price .4% indexing with minimum benefit

Result Highlights

- Benefit Changes
  - increasing the retirement age results in a smaller benefit reduction for the entire population
  - progressive price indexing (PPI) favors high school dropouts, high school graduates, blacks and Hispanics more so than other subpopulations
- Tax Changes
  - Overall, women enjoy greater benefits than men under both tax increase scenarios
  - Racial and ethnic minorities are more likely than whites to benefit from tax increase scenarios regardless of education level

Distribution of Lifetime Shared Benefits for Alternate Retirement Scenarios
(as a percent of scheduled benefits)

	PPI	Raise NRA 69.7	Reduce COLA	Raise NRA 70 w/MB
ALL	87.3	**88.1**	87.7	88.0
MEN	86.6	87.3	**88.1**	87.1
WOMEN	87.9	**88.8**	87.3	88.7
HS DROP OUT	**92.8**	90.6	88.1	91.2
HS GRAD	**89.1**	88.7	87.9	89.0
COLLEGE	84.2	86.8	**87.4**	86.2
WHITE	86.4	**87.9**	87.8	87.8
BLACK	**90.1**	89.1	88.4	89.8
HISPANIC	**88.7**	88.4	87.6	88.1
OTHER	86.8	**87.2**	86.7	86.6

Effects of Gender and Race/Ethnicity
on the Distribution of Lifetime Shared Benefits from Alternative Retirement Policies
(as a percent of scheduled benefits)

	PPI	Raise NRA 69.7	Reduce COLA	Raise NRA 70 w/MB
MEN				
White	85.6	86.9	**88.4**	86.8
Black	**90.1**	88.8	88.5	89.7
Hispanic	**88.3**	87.6	87.9	87.2
Other	85.5	**87.2**	86.6	86.6
WOMEN				
White	87.1	**88.8**	87.3	88.7
Black	**90.1**	89.4	88.3	89.9
Hispanic	89.0	**89.1**	87.2	89.0
Other	**88.3**	87.2	86.7	86.6

Distribution of Lifetime Shared Benefit-to-Tax Ratios from Alternative Policies

(Ratio >1 benefits outweigh the tax liabilities ; Ration 1 or less tax liabilities outweigh benefits)

	PPI	Raise NRA 69.7	Reduce COLA	Raise NRA 70 w/MB	Increase Payroll Tax 2.0	Raise Cap & Increase Payroll Tax .92
ALL	0.97	**0.98**	0.97	**0.98**	**0.98**	0.97
MEN	0.86	**0.87**	**0.87**	0.86	**0.87**	**0.87**
WOMEN	1.10	**1.11**	1.09	**1.11**	1.10	1.09
HS DROP OUT	**1.27**	1.24	1.20	1.25	1.20	1.25
HS GRAD	1.02	1.01	1.01	1.02	1.01	**1.03**
COLLEGE	0.87	0.90	**0.91**	0.89	**0.91**	0.87
WHITE	0.91	**0.93**	**0.93**	**0.93**	**0.93**	0.91
BLACK	1.01	1.00	0.99	1.01	0.99	**1.02**
HISPANIC	1.11	1.11	1.10	1.10	1.10	**1.12**
OTHER	**1.05**	**1.05**	1.04	1.04	**1.05**	1.04

Effects of Gender and Race/Ethnicity on the Distribution of Lifetime Shared Benefit-to-Tax Ratios

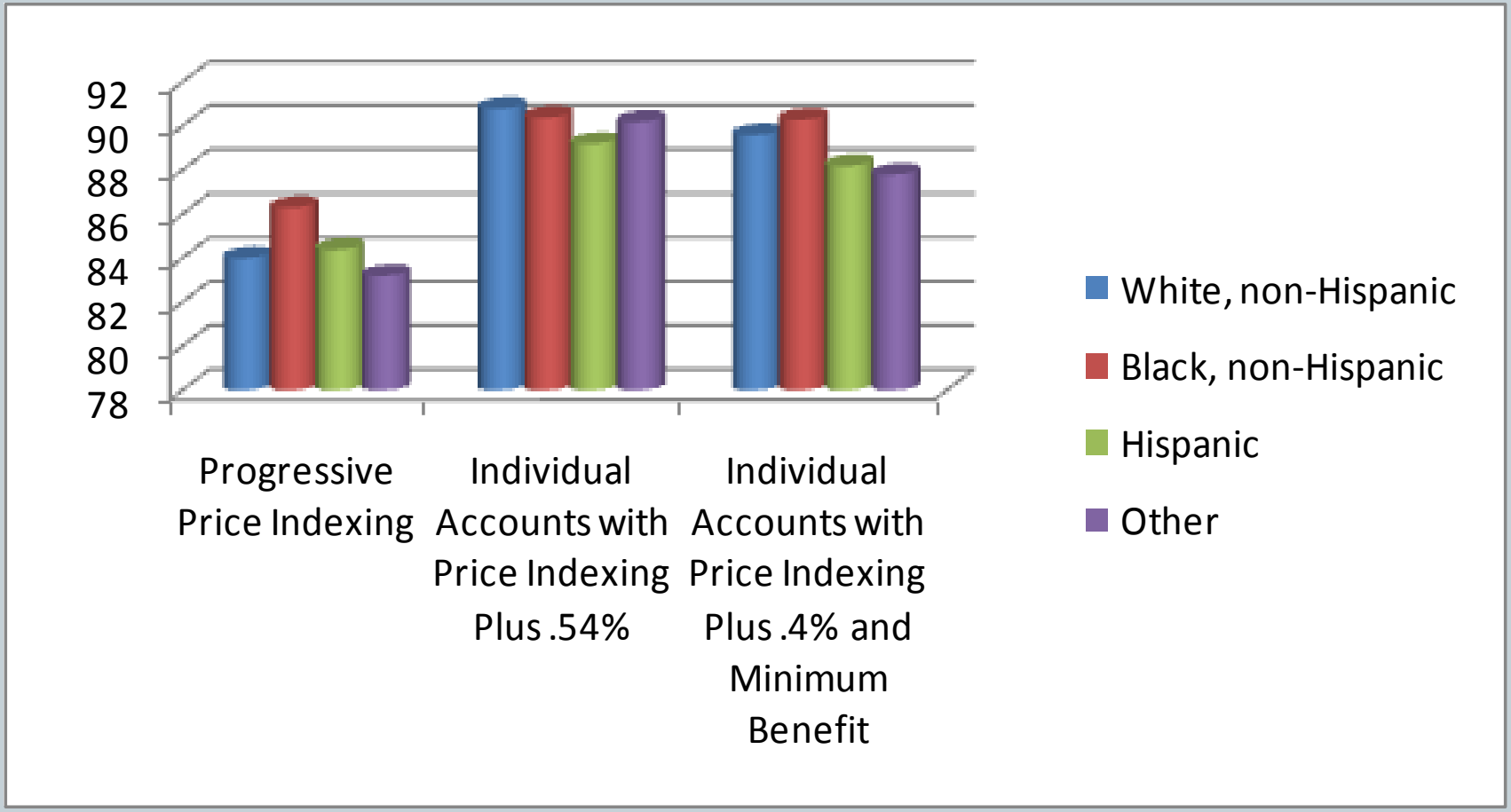
	PPI	Raise NRA 69.7	Reduce COLA	Raise NRA 70 w/MB	Increase Payroll Tax 2.0	Raise Cap & Increase Payroll Tax .92
MEN						
White	0.78	0.80	**0.81**	0.80	**0.81**	0.79
Black	0.94	0.93	0.92	0.94	0.92	**0.95**
Hispanic	1.01	1.00	1.01	1.00	1.00	**1.02**
Other	0.98	1.00	1.00	1.00	**1.01**	0.99
WOMEN						
White	1.06	**1.08**	1.06	**1.08**	**1.08**	1.06
Black	1.08	1.07	1.06	1.08	1.06	**1.09**
Hispanic	**1.23**	**1.23**	1.21	**1.23**	1.22	1.22
Other	**1.13**	1.12	1.11	1.11	1.12	1.11

Effects of Gender on Individual Account Scenarios for College Graduates

(Expressed as a percentage of scheduled benefits)

Effects of Race/Ethnicity on Individual Account Scenarios for College Graduates

(Expressed as a percentage of scheduled benefits)



Conclusion

- Various proposals have different effects on different groups of people based on variables such as education, gender, and race/ethnicity.
- Policy-makers must fully consider the likely effects of the various policy scenarios on different demographic groups prior to enacting new policies.
- Decision-makers must strike a balance that stabilizes the Social Security program while ensuring the security of all Americans but especially vulnerable populations.

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