



HOW PROGRESSIVE IS SOCIAL SECURITY WHEN OLD AGE AND DISABILITY INSURANCE ARE TREATED AS A WHOLE?

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For various reasons—including differences in life expectancy among groups and a benefit formula that progressively relates benefits to past earnings—Social Security can be said to “redistribute” lifetime income among different groups in the population. This brief builds on the discussion of progressivity in Straight Talk 37, which focused on the Old Age and Survivors Insurance (OASI) program. In that brief, we found that higher mortality rates prevalent in less educated, lower-income, nonwhite groups negated the redistribution achieved under OASI by the progressive benefit formula—in other words, relatively more generous benefits do not make up for fewer years of benefit receipt. In this brief, we see how including Disability Insurance (DI) restores very modest levels of progressivity to the system as a whole (OASDI).

DI benefits replace past earnings at a level of generosity comparable to OASI benefits. However, DI benefit receipt is triggered at any point during a worker’s career that disability occurs, even though the beneficiary has paid much less in payroll taxes at the point of DI receipt than at the point of retire-

ment benefit receipt. Since qualifying for DI is based heavily on ability to work, DI benefit receipt by its very nature correlates highly with having low or zero earnings after becoming disabled. Thus, DI beneficiaries will usually fall into a lower lifetime earnings quintile. While disability beneficiaries receive benefits at an earlier age and no longer pay Social Security taxes, they are also likely to live shorter lives, reducing the average number of years they receive benefits, especially OASI after age 65.

Among other measures, we rely on real internal rates of return (IRR), explained in Straight Talk 37, as one way to evaluate what different groups receive from Social Security. Some lower lifetime earning groups that fall victim to regressive trends under OASI find their situation considerably improved or reversed under OASDI in the form of higher IRRs. In order of effect, DI generally redistributes in favor of the bottom earnings quintiles, high school dropouts, blacks and sometimes Hispanics, and men. Compared with OASI, college graduates lose some ground under OASDI, followed by whites. Notably, introducing DI does not appreciably change the pattern of rates of return among different groups of women.

The table shows the returns that two cohorts of men and women (those born during 1931–40 and 1956–64) receive from OASI and OASDI. The table further breaks down results by racial and educational categories. Generally, women have higher IRRs in all categories than men, and IRRs tend to decline from one birth cohort to the next.

The middle panel shows the *marginal* or additional effects of DI when added to OASI. The introduction of DI for men tends to redistribute away from college and high school graduates to high school dropouts, from whites to nonwhites, and (not shown in table) from higher earners to lower earners. The DI panel for women, with its array of negative numbers, strongly indicates that overall, DI modestly reduces the advantages for women over men.

By Earnings Quintile. Both OASI and OASDI are progressive in IRRs and DI increases the progressivity of OASDI relative to OASI. Men with earnings in the lowest three quintiles usually see increases in returns resulting from DI, with the greatest increase going to the lowest quintile. This is partly the result of a dramatic increase in DI take-up among poorer men over time. Earnings quintiles, however, are not a good measure of potential earnings, especially for spouses married to high earners who spend substantial periods out of the labor force. Hence, we hesitate to report

This brief highlights findings from Lee Cohen, C. Eugene Steuerle, and Adam Carasso, “The Effects of Disability Insurance on Redistribution within Social Security, by Gender, Education, Race, and Income,” paper prepared for the Fourth Annual Joint Conference for the Retirement Research Consortium, Washington, D.C., May 30–31, 2002. Note, however, that this Straight Talk draws from an updated model and dataset (MINT v.3), so numbers presented here may not agree with those presented in the paper.

S T R A I G H T T A L K

on Social Security and Retirement Policy

Table 1. Real Shared Internal Rates of Return by Education, Race/Ethnicity, and Earnings Quintile for 1931–40 and 1956–64 Birth Cohorts (percent)

	OASI		DI		OASDI	
	1931–40	1956–64	1931–40	1956–64	1931–40	1956–64
Men						
All	3.0	2.0	0.0	(0.1)	3.1	1.9
High school dropout	2.7	1.9	0.7	0.4	3.4	2.3
High school graduate	3.1	2.1	(0.0)	0.0	3.1	2.1
College graduate	3.1	1.9	(0.3)	(0.3)	2.9	1.6
White/non-Hispanic	3.1	2.0	(0.0)	(0.1)	3.0	1.9
Black/non-Hispanic	2.7	2.2	0.5	0.2	3.3	2.4
Hispanic	3.1	2.2	0.3	(0.0)	3.4	2.2
Women						
All	4.4	3.3	(0.2)	(0.2)	4.2	3.1
High school dropout	4.7	3.9	0.0	0.0	4.7	4.0
High school graduate	4.4	3.3	(0.2)	(0.1)	4.2	3.2
College graduate	4.4	3.2	(0.3)	(0.3)	4.1	2.9
White/non-Hispanic	4.4	3.3	(0.2)	(0.2)	4.2	3.0
Black/non-Hispanic	4.6	3.4	(0.0)	0.2	4.5	3.6
Hispanic	4.7	3.6	(0.2)	(0.1)	4.6	3.6

Source: MINT (Modeling Income in the Near Term) model, v3.0, using data from the 1990–93 SIPP.

Note: The “shared” measure evaluates internal rates of return based on the combined taxes and benefits a married couple receives over the lifetime of both spouses.

exact figures in the table, since they are less reliable than results by educational and racial groups.

By Education. Education can be considered a proxy for potential earnings. Real IRRs for male high school dropouts always lag IRRs for high school graduates under OASI, showing that OASI is not progressive by education for men. However, under OASDI, this trend is *reversed*, making Social Security modestly progressive by education for men.

By Race. As groups, whites, blacks, and Hispanics have distinct economic and health characteristics. While blacks and Hispanics enjoy higher “returns” in the benefit formula than whites, they generally do not collect for as many years because of shorter life spans, so whites still wind up enjoying higher returns. DI tends to offset these OASI effects.

In sum, black men, those in the bottom earnings quintile, and those dropping out of high school have a greater chance of receiving DI than other groups, perhaps reflecting a disproportionate presence in physically demanding occupations. Thus, DI does make the Social Security system moderately more progressive than if it were solely an old-age program. Nonetheless, some regressivity remains. For instance, black and Hispanic women continue to receive lower returns than white women whether we look at OASDI or OASI. We surmise much of this failure to catch up is because never-married women,

those in marriages lasting less than 10 years, and those with career low wages that compare to or exceed their husbands’ wages receive little to no spousal and survivors’ benefits. Spousal and survivors’ benefits, designed originally to redistribute large portions of Social Security spending to lower-income women especially when by themselves, are essentially not available to many of them. When married to higher-earning men, however, many spouses that either do not work or earn significantly less than their married partners receive generous spousal and survivors’ benefits under Social Security.

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