This brief focuses on how Social Security has redistributed among various racial and ethnic groups from a multigenerational perspective. Within-generation (or intragenerational) analyses have emphasized such issues as who gets what replacement rate, how lifetime payroll taxes compare with lifetime benefits, and how single heads of household pay for but have no access to auxiliary spousal and survivor benefits. Recent studies have also documented how different generations are treated within Social Security, with succeeding generations achieving successively lower “returns” on their contributions. As far as we can tell, however, the interactions of these intergenerational redistributions with the various progressive and regressive intragenerational redistributions have not been examined. Here we want to better understand their combined effect on different racial and ethnic groups. We use historical and projected data from 1970 to 2040 to measure the ratio of old age, survivors, and disability (OASDI) benefits received to taxes paid by members of each race or ethnicity each year. This measure captures the transfers that occur in a given year from current workers to current beneficiaries of each group. We then examine benefit-tax ratios for each race or ethnicity into the future to determine how these redistributions will play out in the coming years.

Our conclusion: When considered across many decades—historically, currently, and in the near future—Social Security redistributes from people of color to whites. When considered across many decades—historically, currently, and in the near future—Social Security redistributes from people of color to whites.
Over most of its early decades, the old age redistributions, the total final redistribution to Whites from People of Color? We do not believe that it changes the story much.

As we suggest two explanations for these transfers. First, Hispanics and Asians are more likely to have immigrated to the United States relatively recently and thus less likely to have family members in those earlier generations. Second, blacks and Hispanics have tended to have larger families than whites, thereby creating a larger share of taxpayers receiving lower returns on their contributions relative to parent and grandparent beneficiaries who got higher returns.

This conclusion, we recognize, will be controversial because it contradicts some popular perceptions of the system. Social Security has been both supported and attacked over the decades on the basis of supposed positions (but not examinations) of the redistribution it achieves. We hope that this analysis will inform the developers of a reformed system to consider its real, not supposed, redistributive patterns. For instance, if the system is less progressive than desired, then adjustments such as minimum benefits may be required. Also, if reform follows an often-used pattern of placing higher relative costs on the young than the middle-aged and old, then the racial and income-related, not just generational, implications of those changes ought to be considered.

Social Security redistributes Income Social Security redistributes in many ways as a result of its broad array of benefit features and of program changes that have occurred over the years. While there are several major types of redistributions, the total final redistribution is an empirical question that rests on determining the magnitude of each effect. The Social Security’s pay-as-you-go financing redistributes from younger to older generations. Benefits are based on earnings history rather than contributions, and each succeeding cohort of workers has faced higher average lifetime OASI tax rates than the cohorts already retired. The program’s progressive benefit formula redistributes from high earners to low earners. The first dollar of indexed earnings contributes more to one’s final benefit than the last dollar. Formulas redistributes from those with shorter lifespans to those with longer lifespans, because those who live longer in retirement get benefits for more years. DI redistributes from the healthy to the less healthy.

Divorce, spousal, and survivor benefits redistribute to married couples from never-married households (and those with marriages too short to qualify for such auxiliary benefits). No additional tax is paid to receive those benefits, and groups with higher proportions of single household heads have less access to them, even though they share in the costs. Spousal and survivor benefits further tend to redistribute “upward” since these “free” additional benefits are not level but roughly proportional to the worker’s benefit, so the biggest winners tend to be those who marry the richest workers.

Benefits to dependents of the elderly, disabled, or deceased redistribute from smaller families to larger families. The effect of this is more limited, however, as these dependent (mainly child) benefits form only a small portion of Social Security’s benefit paysouts, and most auxiliary benefits are for widows (Congressional Budget Office [CBO] 2006).

By crediting only a limited number of years of contributions toward workers’ benefits, Social Security redistributes from longer-term workers (those who work more than 35 years) to shorter-term workers (Steuerle and Spito 1999).

Because of these and other design features, differences among racial and ethnic groups in incomes, life expectancy, years paying tax, and other factors add to multiple progressive and regressive forces. On average, blacks are more likely to be low income and short lived and are less likely to marry than whites. Blacks also are more likely to be disabled. Given this, one would expect forced annuitization and auxiliary benefits related to marriage and divorce to redistribute from blacks to whites. DI and a progressive benefit formula, on the other hand, should net redistribute from whites to blacks.

Hispanics, meanwhile, tend to have higher life expectancies and lower disability rates than the general population. However, they tend to have lower educational attainment and wages. Non-native Hispanics tend to have fewer years of earnings covered by Social Security, and some will lack the required 10 years of coverage to qualify for Social Security disability or retirement benefits. Thus, the progressive benefit formula tends to favor those Hispanics eligible for benefits, because of both lower annual income and a lower measured lifetime income due to fewer years of coverage, but disadvantage those ineligible for benefits. US-born Hispanics are a much younger population as well, so most working Hispanics have contributed at today’s higher OASI tax rates, and relatively few contributed at the lower historical rates.

Previous research has sorted through some of these relationships and come to the following conclusions:

- Over most of its early decades, the old age and survivors portion of Social Security gave larger absolute transfers net of taxes to upper-income families. When allowing mortality to vary by income, the disparities in net OASI transfers increased further for higher OASI benefit workers between high- and low-income households. On the basis of net transfers, then, in the early generations OASI was regressive—at least for stylized households. Projected increases in progressivity were primarily the result of lower net transfers for high-income groups, not higher net taxes attributable to multi-generational households (Steuerle and Bakija 1994).

- Using the Modeling Income in Near Term (MINT) model, Steuerle, Carasso, and Cohen (2004a) examined internal rates of return as a measure of progressivity in Social Security, first only under OASI. They found that higher benefits under the system’s progressive benefit formula did not significantly raise returns for high-mortality, low-education, and low-income groups, among which minorities have high representation relative to their proportion in the overall population. Roughly speaking, the two biggest redistributive factors—the progressivity induced by the benefit formula and the regressivity induced by annuitization—offset each other. When analysis was expanded to include DI (Steuerle, Carasso, and Cohen 2004b), social progressivity was restored to the system, especially for black men. However, black and Hispanic women in the 1931–40 and 1935–64 birth cohorts received lower rates of return than white women under both OASI and OASDI. (Cohorts between 1940 and 1944 were not shown.)


Others have analyzed how these redistributions play out in the living standards of different households. Recent studies have found that certain subpopulations of Social Security benefit recipients remain vulnerable to poverty in old age. Blacks, Hispanics, and Asians (another cohort with high immigrant-background) have lower Social Security wealth and median pays than whites, even as some of those groups rely more heavily on Social Security for income security in retirement (Bridges and Choudhury 2009). Poverty rates remain high for the unmarried over 65—those widowed, divorced, or never married. Poverty rates for both minority men and women over age 65 are between 10 and 20 percentage points higher than for their white counterparts (Favreault and Mermin 2008). These findings illustrate the limits of trying to assess the progressivity of Social Security based solely on a single factor, particularly the progressive benefit formula that guarantees higher replacement rates for lower-wage workers. Someone also must pay for the regressive portions of the system, whether due to the higher net benefits for the richer members of earlier generations; the differential mortality that pays more benefits to longer-lived, high-income beneficiaries; or the design of spousal and survivor benefits that pays higher benefits to nonworking spouses of high-income workers.

Racial and Ethnic Redistribution from a Multigenerational Family Perspective None of these analyses looks at redistributions from a multigenerational family perspective. To simplify matters, think of a two-family economy where both families have equal earnings. Family A, with two living parents, has three children. Family B, also with two living parents, has only one child. When the parents become older, the families create a social compact to support both sets of parents, and they do this by assessing all four children equally. Looking at this compact multigenerationally, Family A, which pays more taxes, gets a smaller share of the benefits of Family B as well, redistributes substantial amounts to Family B. Even if the four children later all get equal benefits, Family B is permanently ahead.

Of course, Social Security is much more complex, as it contains many of the other types of redistribution discussed above. But, in some respects, it operated at its beginning like the simplistic model noted above. The first (parents) generation or two paid very little in tax at low rates for a few years, so most of its Social Security benefits were nearly purely transfers from the next generations. But then the process continued. Succeeding generations also got increases in benefits for which they contributed little or nothing for only a portion of their careers. For instance, as noted in the intergenerational literature cited, a benefit increase financed by an across-the-board tax increase meant that someone age 20 would pay at the higher rate for at most 15 years if retiring age 65, whereas someone age 20 would pay at the higher rate for as much as 45 years. These successive windfalls continued to redistribute among families of different sizes when considered multigenerationally. Children of larger families were left paying higher tax rates for the benefits of both their parents and the parents of smaller families.

If the system had somehow only provided windfalls to the first generation, then the transfers from smaller to larger families might have been limited or might have been offset through other redistributive forces. This is what happened, largely because new windfalls kept being created and paid for by taxes assessed disproportionately on succeeding generations rather than the windfall beneficiaries.
Over most of its early decades, the old age Social Security redistributed large absolute transfers net of taxes to upper-income families. When allowing mortality to vary by income, the disparities in net OASI transfers increased further from benefit high- and low-income households. On the basis of net transfers, then, in the early generations OASI was regressive—at least for stylized households. Projected increases in progressivity were primarily the result of lower net transfers for high-income groups, not higher net transfers for low-income groups (Steuerle and Bakija 1994).

Because of these and other design features, differences among racial and ethnic groups in incomes, life expectancy, years paying tax, and other subject characteristics to multiple progressive and regressive forces. On average, blacks are more likely to be low income and short lived and are less likely to marry than whites. Blacks also are more likely to be disabled. Given this, one would expect forecast annuitization and auxiliary benefits related to marriage and divorce to redistribute from blacks to whites. DI and a progressive benefit formula, on the other hand, should net redistribute from whites to blacks.

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• These findings illustrate the limits of trying to assess the progressivity of Social Security based solely on a single factor, particularly the progressive benefit formula that guarantees higher replacement rates for lower-wage workers. Someone also must pay for the regressive portions of the system, whether due to the higher net benefits for the richer members of earlier generations; the differential mortality that pays more benefits to longer-lived, high-income beneficiaries; or the design of spousal and survivor benefits that pays higher benefits to nonworking spouses of high-income workers.

How Social Security Redistributes Income Social Security redistributes in many ways as a result of its broad array of benefit features and of program changes that have occurred over the years. While there are several major types of redistributions, the total final redistribution is an empirical question that rests on determining the magnitude of each effect.1

1. Social Security’s pay-as-you-go financing redistributes from younger to older generations. Benefits are based on earnings history rather than contributions, and each succeeding cohort of workers has faced higher average lifetime OASI tax rates than the cohorts already retired.2

2. The program’s progressive benefit formula redistributes from high earners to low earners. The first dollar of indexed earnings contributes more to one’s final benefits than the last dollar.3

3. Forced annuitization—the requirement to claim benefits as a permanent stream of payments on or after reaching the eligibility age rather than as a lump sum—redistributes from those with shorter lifespans to those with longer lifespans, because those who live longer in retirement get benefits for more years.4

4. DI redistributes from the healthy to the less healthy.5

5. Divorce, spousal, and survivor benefits redistribute to married couples from never-married households (and those with marriages too short to qualify for such auxiliary benefits). No additional tax is paid to receive those benefits, and groups with higher proportions of single household heads have less access to them, even though they share in the costs. Spousal and survivor benefits further tend to redistribute “upward” since these “free” additional benefits are not level but roughly proportional to the worker’s benefit, so the biggest winners tend to be those who marry the richest workers.6

6. Benefits to dependents of the elderly, disabled, or deceased redistribute from smaller families to larger families. The effect of this is more limited, however, as these dependents (mainly child) benefits form only a small portion of Social Security’s benefit pays, and most auxiliary benefits are for widows (Congressional Budget Office [CBO] 2006).

7. By creditling only a limited number of years of contributions toward workers’ benefits, Social Security redistributes from longer-term workers (those who work more than 35 years) to shorter-term workers (Steuerle and Spito 1999).

8. The addition of disability benefits (DI) restores some progressivity for generations relatively recently and thus less likely to have family members in those earlier generations who have higher net benefits or returns. Second, blacks and Hispanics have tended to have larger families than whites, thereby creating a larger share of taxpayers receiving lower returns on their contributions relative to parent and grandparent beneficiaries who got higher returns.

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Has Social Security Redistributed to Whites from People of Color?

Microsimulation Analysis

To determine how all these redistributive factors add up for different groups, we use historical data from the 1970 to 1994 March Current Population Surveys and projections from the Urban Institute’s DYNASIM microsimulation model8 from 1994 to 2040 to examine transfers between racial and ethnic groups.9 DYNASIM starts with a sample of over 100,000 individuals from the 1990 to 1999 Survey of Income and Program Participation data. The model calculates annual demographic and economic changes consistent with the 2012 Social Security Trustees demographic and economic assumptions. It generates annual earnings and payroll taxes as well as Social Security retirement, spousal, and disability benefits for the population as it ages over time. Dependent benefits are not modeled, however, as previously noted, such benefits make up a small share of total benefits—only about 5 percent from 1970 to 2012—and are unlikely to alter the relative positions of the groups we examine.10

We compare the ratio of Social Security benefits received to taxes paid by members of each racial and ethnic group at a point in time. This measure captures the transfers that occur in a given year from current workers to current beneficiaries of each race. Higher benefit-to-tax ratios indicate larger transfers relative to taxes for a particular race. Likewise, lower benefit-to-tax ratios indicate a smaller proportion of benefits flowing to members of that race relative to the contributions working members are making at that time.11

Looking only at OASI (figure 1), whites have clearly received a disproportionate share of benefits relative to the taxes that they pay in at a point in time. Their benefit-to-tax ratio has been higher than that of blacks, Hispanics, and other ethnic groups for as long as the system has existed, while projections continue that trend at least for decades to come. Some turnaround may come only in the distant future: for instance, if black and white family sizes converge with each other and tax rates do not increase (though much here depends upon the design of any future reform putting the system back into balance).12 Asians make up a significant share of “other ethnic groups,” as measured by the Census. Hispanics and this “other” group tend to have the lowest benefit-tax ratios.

The ratio of workers to beneficiaries of each race is a key factor in the redistribution. OASI taxes to beneficiaries of each race relative to the present value of contributors’ future benefits from 1970 to 2012 and are unlikely to alter the relative positions of the groups we examine.13

As noted, redistributions from blacks, Hispanics, and others to whites occurring earlier or even today could be offset in the future depending upon how the present value of contributors’ future benefits compares to the present value of their contributions. For example, in the case of our simplified two-family illustration, the second and third generations of each family could make an additional compact to distribute benefits to the second generation in a way that offsets Family A’s initial redistribution to Family B.14

Note, too, that neither family size differences nor continually lower returns for succeeding generations is sufficient to cause the additional redistributions we examine; both are necessary.

Since cash flow redistributions have lasted for 70 years and are projected for at least a few more decades, it would take an extraordinary amount of redistribution in the future to compensate people of color for the transfers they have already made. The present value of all benefits less the present value of all taxes for each group would almost assuredly still end up favoring whites, particularly in OASI. When the second, third, and

Figure 1. OASI Benefit-to-Tax Ratio by Race/Ethnicity and Year

<table>
<thead>
<tr>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>Other</th>
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<tbody>
<tr>
<td>2.0</td>
<td>1.5</td>
<td>1.0</td>
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<tr>
<td>1.0</td>
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</tbody>
</table>

Source: Authors’ calculations from DYNASIM3 and the Current Population Survey.

Figure 2. DI Benefit-to-Tax Ratio by Race/Ethnicity and Year

<table>
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<tr>
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Likewise, lower benefit-to-tax ratios indicate a smaller proportion of benefits flowing to members of that race relative to the contributions working members are making at that time. Looking only at OASI (figure 1), whites have clearly received a disproportionate share of benefits relative to the taxes that they pay in at a point in time. Their benefit-to-tax ratio has been higher than that of blacks, Hispanics, and other ethnic groups for as long as the system has existed, while projections continue that trend at least for decades to come. Some turnaround may come only in the distant future; for instance, if black and white family sizes converge with each other and tax rates do not increase (though much here depends upon the design of any future reform putting the system back into balance).

Asians make up a significant share of “other ethnic groups,” as measured by the Census. Hispanics and this “other” group tend to have the lowest benefit-to-tax ratios. The ratio of workers in each group paying OASI taxes to members of each group receiving OASI benefits suggests that family size and immigration are likely explanations for this redistribution. Over the entire projection horizon, there is an average of 8.2 Hispanic workers per Hispanic beneficiary, 4.7 black workers per black beneficiary, 6.6 workers in the other category per beneficiary, and less than 3.3 white workers per white beneficiary.

Worker-beneficiary ratios fall for all groups over the projection period, but the relative position of each group remains the same.

The DI portion of the system works in the other direction for blacks, who are a significantly larger share of the DI than the OASI population. Hispanics and other nonwhite groups make up a smaller share of the DI population and receive benefit-tax ratios lower or comparable to those of whites (figure 2).

How has the OASDI system as a whole redistributed income among racial groups? Adding DI to OASI narrows but does not eliminate the disparities between benefit-tax ratios of whites and others (figure 3). The addition of disability benefits significantly narrows the gap between black workers and white workers, but from the 1980s on benefit-tax ratios of white workers diverge with those of blacks and remain above them for the remaining projection period. The benefit-tax ratios of Hispanics and others remain below those of whites and blacks for the entire period examined, and they do not appear to be catching up.

Comparing benefit-tax ratios at a point in time does not account for the future benefits that current taxpayers are accumulating through their contributions. As noted, redistributions from blacks, Hispanics, and others to whites occurring earlier or even today could be offset in the future depending upon how the present value of contributors’ future benefits compares to the present value of their contributions. For example, in the case of our simplified two-family illustration, the second and third generations of each family could make an additional compact to distribute benefits to the second generation in a way that offsets Family A’s initial redistribution to Family B.

Note, too, that neither family size differences nor continually lower returns for succeeding generations is sufficient to cause the additional redistributions we examine here; both are necessary.

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Concerns with This Type of Analysis

Objections to this type of analysis seem to fall into four categories.

First, it is easy to misinterpret an examination of Social Security redistributions as an attempt to see if everyone got their money’s worth out of the Social Security and then object if someone did not. That is not our objective. In a system of transfers, “money’s worth” is a somewhat strange concept. Somebody usually pays on net. If we give benefits to our parents, it doesn’t automatically entitle us to demand some rate of return from our children, especially a return determined independently from economic and demographic considerations. Nonetheless, we do examine the actual redistributions within Social Security to see if it is achieving its redistributive objectives—such as relieving poverty or distributing burdens across generations efficiently, fairly, or as intended. Second, it is also easy to misinterpret these results by race as asserting that race should be a criterion by which benefits are allocated. We agree that this, too, would be a mistake. Still, if the system is intended to favor those with fewer means, then we do want to know how various racial and ethnic groups with lower-than-average incomes fare within that system. Certainly, also, classifications by race remain imprecise, though we do not think it would change the fundamental conclusions here.

Third, the broader immigration issue is convoluted with misstatements and misinterpretations. Here we only examine the extent to which some immigrant groups tend to redistribute Social Security transfers to families of Americans with longer tenure in this country. We do not examine redistributions beyond Social Security, such as in welfare systems or the benefits to the population from the willingness of immigrants to take lower-wage jobs. Nor do we break down the extent to which subsets of immigrant or foreign populations benefit from many of the specific features of Social Security.

Finally, some may believe that it is simply inappropriate to compare families across multiple generations. However, this belies the common concern with many multigenerational issues, such as mobility across generations, the effects of inheritances and inheritance taxes on economic well-being, and how sharing resources across multiple generations of a family tends to relieve problems of poverty or need.

Conclusion

While this brief does not examine specific Social Security reforms, it does make clearer the implications of various types of reforms. For instance, future increases in tax rates on all workers would continue the past trend of passing higher relative burdens on succeeding generations and, from a multigenerational perspective, would tend to place higher relative burdens on immigrant and larger families. On the other hand, policies that enhance benefits for those with very low lifetime earnings could restore or add progressivity to the system. In the end, reform represents an opportunity to return to first principles and to reexamine the fairness and adequacy of retirement programs for all groups. This brief shows that continually lower returns for later generations can and do interact with immigrant status and family size to redistribute benefits to a white population that is already richer on average than the general population. If one of Social Security’s goals is to provide greater relative protections to the most vulnerable, one must ask whether that was a desired or accidental outcome. Social Security legislation was usually pushed without these types of data analyses and only with a very partial understanding of the effects of its many progressive and regressional features.

Notes

1. Social Security data on race and Hispanicity are limited before 1970. For this analysis, we ignore future adjustments to make up for trust fund imbalances in this analysis. Leimert (1997) notes that future programmatic adjustments (tax increases or benefit cuts) to restore balance to the Social Security program will have important consequences for how different groups fare, both within and across generations. Since balance in the future requires either benefit cuts or tax increases, future generations on the whole will do worse than in the projections here, which could add to the net multigenerational transfer made by those whose shares of the population is growing.

2. For more detail on these redistributions, see Cohen, Steuerle, and Cohen (2002) and Steuerle, Carano, and Cohen (1994). Item 6 is discussed at length by Tootell-Gil (2006).

3. Earlier generations often got benefits for which they contributed less or at zero tax rates over only a limited portion of their lives, relying on higher tax rates on later generations to pay for revenue shortfalls. This transfer continues to this day (Steuerle and Bakija 1993; Leimert 1997). For instance, someone retiring in 2000 may have paid OASI at a combined employer-employee tax rate of only 6.2% in 1993, about 9 percent in 1975, even though those retiring in 2030 or so will likely have paid at a rate in excess of 12 percent for all of their working lives, yet be entitled to no higher replacement rate than earlier generations.

4. Off course, the ultimate redistribution also depends upon the slope of income between spouses. When spouses have fairly equal earnings, few or no spousal or survivor benefits are paid.

5. For more on mortality differentials by race, see Okhunyadz et al. (2012). For a demographic summary of the Hispanic population, see Martin (2013).

6. As opposed to Steuerle, Carano, and Cohen, who classified disability recipients by their income before receipt of disability, CBO classified the disabled according to their lifetime incomes, including the many zero-income years likely to follow disability. Both analyses are informative, as there is no definitively correct way of classifying people by income class. It will not affect our findings here.

7. See also Buita and Smith (2012) and Buita, Smith, and late (2012).

8. For more on DYNASIM, see Smith (2003).

9. The census records race and Hispanic origins separately, but this analysis treats the two together. We classify people as Hispanic if they describe their ethnicity that way (regardless of nationality). We classify people as white if they identify their race as white and do not claim Hispanic origin, and as black if they identify their race as black and do not claim Hispanic origin. People belong to the “other” category (Asian, Native American) if they do not satisfy any of these criteria. It should be noted that “Hispanic” is a broad category that encompasses individuals with heritage from Mexico, the Caribbean, Central America, South America, Europe, and elsewhere. These ethnic designations have been shown to have important differences in characteristics such as earnings and educational attainment (Martin 2007). These redistributions in this analysis likely vary by national origin.


11. For the historical period examined, benefit-to-tax rates were less than 1 for all races. This reflects the contributions of the baby boomers in the workforce going to the relatively small pre-boom cohort. In future years, the benefit-to-tax rate rises above 1 for some groups as baby boomers retire and a smaller “baby bust” workforce contributes less in payroll taxes than will be paid out in benefits.

12. There is some sign that black family sizes are decreasing and approaching the level of white families. In 2010, the total fertility rate for black non-Hispanic women was 1.75, compared with 2.17 for whites. The rate for Hispanic women was 2.53. The total fertility rate represents the average number of children a woman would be expected to have over the course of her child-bearing years (National Center for Health Statistics 2011).

13. Technically, if every generation got the same rate of return on their contributions, and that rate of return equaled the discount rate used to calculate net benefits, then no redistribution from larger to smaller families need have taken place. Of course, that is difficult, if not impossible, to achieve in a system with large windfalls being granted to earlier generations or with falling-birth rates overall.

14. DYNASIM allows projections through 2010. Projections for later years show benefit-to-tax ratios for blacks surpassing those of whites for OASI and DYNASIM in the 2010s assuming current benefits and tax structures, as well as merging of fertility rates. Hispanics and other groups never catch up to whites over the projection period. However, projections in those later years are quite speculative, given how much demographic and economic conditions can change over the next 40 years and the requirement for reform to avoid running large deficits within Social Security.
fourth generations have seen and continue to see these net transfers on a cash basis, it would take an extraordinary amount of later redistributions to offset what has been occurring since the system began.14

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Objections to this type of analysis seem to fall into four categories.

First, it is easy to misinterpret an examination of Social Security redistributions as an attempt to see if everyone got their money’s worth out of the Social Security and then object to that as asserting that race should be a criterion by which benefits are allocated. We agree that this, too, would be a mistake. Still, if the system is intended to favor those with fewer means, then we do want to know how various racial and ethnic groups with lower-than-average incomes fare within that system. Certainly, also, classifications by race remain imprecise, though we do not think it would change the fundamental conclusions here.

Second, it is easy to misinterpret these results by race as asserting that race should be a criterion by which benefits are allocated. We agree that that, too, would be a mistake. Still, if the system is intended to favor those with fewer means, then we do want to know how various racial and ethnic groups with lower-than-average incomes fare within that system. Certainly, also, classifications by race remain imprecise, though we do not think it would change the fundamental conclusions here.

Third, the broader immigration issue is convoluted with misstatements and misinterpretations. Here we only examine the extent to which some immigrant groups tend to provide net Social Security transfers to families of Americans with longer tenure in this country. We do not examine redistributions beyond Social Security, such as in welfare systems or the benefits to the population from the willingness of immigrants to take lower-wage jobs. Nor do we break down the extent to which subsets of immigrant or foreign populations benefit from many of the specific features of Social Security.

Finally, some may believe that it is simply inappropriate to compare families across multiple generations. However, this belies the common concern with many multigenerational issues, such as mobility across generations, the effects of inheritances and inheritance taxes on economic well-being, and how sharing resources across multiple generations of a family tends to relieve problems of poverty or need.

Conclusion

While this brief does not examine specific Social Security reforms, it does make clearer the implications of various types of reforms. For instance, future increases in tax rates on all workers would continue the past trend of passing higher relative burdens on succeeding generations and, from a multigenerational perspective, would tend to place higher relative burdens on immigrant and larger families. On the other hand, policies that enhance benefits for those with very low lifetime earnings could restore or add progressivity to the system.

In the end, reform represents an opportunity to return to first principles and to reexamine the fairness and adequacy of retirement programs for all groups. This brief shows that continuously lower returns for later generations can and do interact with immigrant status and family size to redistribute benefits to a white population that is already richer on average than the general population. If one of Social Security’s goals is to provide greater relative protections to the most vulnerable, one must ask whether that was a desired or accidental outcome. Social Security legislation was usually passed without these types of data analyses and only a very partial understanding of the effects of its many regressive and progressive features.

Notes

1. Social Security data on race and Hispanicity are limited before 1970. For this analysis, we ignore future adjustments to make up for trust fund imbalances in the analysis. Leimer (1999) notes that future programmatic adjustments (tax increases or benefit cuts) to restore balance to the Social Security program will have important consequences for how different groups fare, both within and across generations. Since balance in the future requires either benefit cuts or tax increases, future generations on the whole will do worse than in the projections here, which could add to the net multigenerational transfers made by those whose share of the population is growing.

2. For more detail on these redistributions, see Cohen, Steuerle, and Cohen (2002) and Steuerle, Carano, and Cohen (1996). Item 6 is discussed at length by Kotz-Gil (2006).

3. Earlier generations often get benefits for which they contributed at low or zero tax rates over only a limited portion of their lives, relying on higher tax rates on later generations to pay for revenue shortfalls. This transfer continues to this day (Steuerle and Bakija 1994; Leimer 1999).

For instance, someone retiring in 2000 may have paid OASI at a combined employer-employee tax rate of only 6.7 percent in about 9 percent in 1975, even though those retiring in 2000 or so will likely have paid at a rate in excess of 10 percent for all of their working lives, yet be entitled to no higher replacement rate than earlier generations.

4. Of course, the ultimate redistribution also depends upon the split of income between spouses. When spouses have fairly equal earnings, few or no spousal or survivor benefits are paid.

5. For more on mortality differentials by race, see Oldenettel et al. (2012). For a demographic summary of the Hispanic population, see Martínez (2007).

6. As opposed to Steuerle, Carano, and Cohen, who classified disability recipients by their income before receipt of disability, CBдоров classified the disabled according to their lifetime incomes, including the many zero-income years likely to follow disability. Both analyses are informative, as the last definitively correct way of classifying people by income class.

It will not affect our findings here.

7. See also Butrica and Smith (2012) and Butrica, Smith, and Lane (2012).

8. For more on DYNASIM, see Smith (2001).

9. The census records race and Hispanic origin separately, but this analysis treats the two together. We classify people as Hispanic if they describe their ethnicity that way (regardless of nationality). We classify people as white if they identify their race as white and do not claim Hispanic origin, and as black if they identify their race as black and do not claim Hispanic origin. People belonging to the “other” category (Asian, Native American) if they do not satisfy any of these criteria. It should be noted that “Hispanic” is a broad category that encompasses individuals with heritage from Mexico, the Caribbean, Central America, South America, Europe, and elsewhere. These ethnic designations have been shown to have important differences in characteristics such as earnings and educational attainment (Martin 2007).

The redistributions in this analysis likely vary by national origin.

10. US Social Security Administration, 2013, Annual Statistical Supplement, Table 5.34.

11. For the historical period examined, benefit-to-tax ratios were less than 1 for all races. This reflects the contributions of the baby boomers in the workforce going to the relatively small pre-baby boom core cohort. In future years, the benefit-to-tax ratio rises above 1 for some groups as baby boomers exit and a smaller “baby bust” workforce contributes less in payroll taxes than will be paid out in benefits.

12. There is some sign that black family sizes are decreasing and approaching the level of white families. In 2010, the total fertility rate for black non-Hispanic women was 1.87, compared with 1.79 for whites. The rate for Hispanic women was 2.35. The total fertility rate represents the average number of children a woman could be expected to have over the course of her child-bearing years (National Center for Health Statistics 2012).

13. Technically, if every generation got the same rate of return on their contributions, and that rate of return equaled the discount rate used to calculate net benefits, then no redistribution from larger to smaller families need have taken place. Of course, that is difficult, if not impossible, to achieve in a system with large windfalls being granted to earlier generations or with falling-birth rates overall.

14. DYNASIM allows projections through 2080. Projections for later years show benefit-to-tax ratios for blacks surpassing those of whites for OASI and DYNASIM in the 1950s assuming current benefit and tax structures, as well as merging of fertility rates. Hispanics and other groups never catch up to whites over the projection period. However, projections in those later years are quite speculative, given how much demographic and economic conditions can change over the next 40 years and the requirement for reform to avoid running large deficits within Social Security.
Has Social Security Redistributed to Whites from People of Color?

C. Eugene Steuerle, Karen E. Smith, and Caleb Quakenbush

From its beginning, Social Security was designed to be redistributive. Its designers aimed to replace a higher share of pre-retirement income for those with lower earnings histories and to provide a near-universal base of protection against poverty in old age. The program has succeeded considerably on both those fronts. However, throughout much of its history, less attention has been paid to the many other forms of redistribution within Social Security. Some have been regressive, others progressive, and many tend to violate such norms and principles as equal justice for those equally situated.

In this brief, we want to better understand their combined effect on different racial and ethnic groups. We use historical and projected data from 1970 to 2040 to measure the ratio of old age, survivors, and disability insurance (OASI) benefits received to taxes paid by members of each race or ethnicity each year. This measure captures the transfers that occur in a given year from current workers to current beneficiaries of each group. We then examine benefit-tax ratios for each race or ethnicity into the future to determine how these redistributions will play out in the coming years.

Our conclusion: When considered across many decades—historically, currently, and in the near future—Social Security redistributes from people of color to whites.