

# THE EFFECTS OF CHANGES IN WOMEN'S LABOR MARKET ATTACHMENT ON REDISTRIBUTION UNDER THE SOCIAL SECURITY BENEFIT FORMULA

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### Introduction

Studies conducted using data from the early 1990s asked whether the Social Security benefit formula, which is highly progressive at the level of the individual, succeeds in redistributing benefits from high to low earning households. These studies suggested that while the benefit formula fostered significant redistribution from individuals with high earnings to low earnings, there was much less redistribution among households. With wives earning much less than their husbands, much of the effective redistribution was from high earning husbands to their lower earning wives. In addition, spouse and survivor benefits accrued disproportionately to high earning households. Both factors mitigated redistribution among households.

This paper uses data from the Health and Retirement Study (HRS) to ask how the overwhelming trend in women's work and earnings has affected the redistribution fostered by the Social Security benefit formula. We compare redistribution for members of a cohort of households with at least one person age 51 to 56 in 2004 with redistribution within a cohort that is twelve years older, those from households ages 51 to 56 in 1992.

## **Differences Between Cohorts**

Reflecting the increase in women's labor market activities, the labor force participation and earnings of women have increased substantially between the 1992 and 2004 cohorts. There was a 19 percentage point gap between the labor force participation rates of 51 to 56 year old men and women in 1992. That gap is 8 percentage points for the 2004 cohort. Similarly, a 25 percentage point gap between the fractions of 51 to 56 year old men and women working full time in 1992 declined to 16 percent in 2004. The increased participation and earnings of women is also reflected in a comparison of the taxes and benefits paid over their lifetimes between men and women from the 2004 and 1992 cohorts. Taxes (in 2004 dollars) paid by members of the younger cohort were 37 percent higher for men between the cohorts, but reflecting the major changes in their lifetime participation and resulting earnings, taxes were 86 percent higher for women. Own benefits were only 13 percent higher for men from the younger vs. older cohort. For women, own benefits were 62 percent higher.

### Distribution and Redistribution

We calculate a variety of measures of benefit and tax distribution and redistribution for members of households with at least one person age 51 to 56 in 2004. The population is divided into deciles according to the Average Indexed Monthly

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Earnings covered under Social Security and outcomes are reported separately by AIME decile. The first set of measures of redistribution involves a simple comparison of benefits and taxes for members of each AIME decile. Next, we report a measure of redistribution that reflects the increase in benefits due to the redistributive effects of the benefit formula. The baseline is taken as the level of benefits that would be received by members of the decile if their benefits amounted to the average ratio of benefits to taxes for the entire cohort. A third measure of redistribution asks about the share of total benefits paid to members of the cohort that is redistributed to the members of each decile. We also consider the rate of return to payroll taxes for members of each AIME decile.

Focusing first on redistribution of benefits based on own earnings, 11.68 percent of total benefits paid to the 2004 cohort based on own work, i.e., not including spouse or survivor benefits, was redistributed from members of the three highest earning deciles. This is a greater amount of redistribution than was found for the 1992 cohort, where 9.53 percent of total benefits paid was redistributed from members of the top AIME deciles.

Next, we turn to data on redistribution of benefits for households, at the same time counting within total benefits not only those paid for own work, but also including spouse and survivor benefits. The share of total benefits redistributed among households increased from 4.51 percent for the 1992 cohort to 7.08 percent for the 2004 cohort.

There are two bottom lines. There is considerably less redistribution of total benefits among households than in benefits based on own earnings among individuals. Although the formula for own benefits is designed to be redistributive, and is redistributive at the level of the individual, lower earnings of women and the presence of spouse and survivor benefits at the household level continue to reduce the degree of redistribution fostered by the Social Security benefit formula among households.

Second, there are important changes indicating that the redistribution fostered by the Social Security benefit formula has increased over time. The amount of redistribution at the household level is higher for the 2004 cohort than for the 1992 cohort. Moreover, the increase in redistribution through 2004 is greater at the household level than at the level of the individual.

# **Conclusions**

This study provides basic facts upon which to base any policy changes meant to address the redistributive effects of the OASI system. Although there has been some increase in the extent of redistribution from the last time we looked at this issue, the degree of redistribution remains quite modest at the household level. Policy makers must decide whether they are happy with the current level of redistribution of Social Security benefits at the household level, which differs quite substantially from the sharp degree of redistribution suggested by the benefit formula, or whether they would prefer a system that is more, or less, redistributive.

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