

The Progressivity of Social Security

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Policy Abstract

This paper provides new evidence on the progressivity of the Social Security retirement program. Using the PSID, the study highlights how progressivity differs depending on the definition of income, how it is affected by the measure of progressivity used, and how progressivity may change over time due to differences in the economic behavior of successive cohorts. There are four key findings. First, when progressivity is measured using more comprehensive concepts of income, the Social Security system exhibits less overall progressivity than when it is evaluated using more narrow definitions of income. Indeed, when evaluated using potential labor earnings at the household level (rather than actual earnings at the individual level), the system exhibits virtually no overall progressivity. Second, the absence of progressivity in more inclusive measures of income is driven largely by households in the middle and upper part of the income distribution, which masks the presence of positive, if small, net transfers to the lowest income households. Third, even when there is redistribution occurring, it is not efficiently targeted, with many high income households receiving net transfers, and many low income households paying net taxes. Fourth, the extent to which progressivity differs across cohorts depends on the income concept used.