



## The Journal of Sociology & Social Welfare

Volume 18  
Issue 3 *September*

Article 3

June 1991

# Does Social Security Redistribute Income?: A Tax-Transfer Analysis

Namkee G. Choi  
*State University of New York, Buffalo*

Follow this and additional works at: <https://scholarworks.wmich.edu/jssw>

 Part of the [Social Policy Commons](#), and the [Social Work Commons](#)

### Recommended Citation

Choi, Namkee G. (1991) "Does Social Security Redistribute Income?: A Tax-Transfer Analysis," *The Journal of Sociology & Social Welfare*: Vol. 18 : Iss. 3 , Article 3.  
Available at: <https://scholarworks.wmich.edu/jssw/vol18/iss3/3>

This Article is brought to you for free and open access by the Social Work at ScholarWorks at WMU. For more information, please contact [maira.bundza@wmich.edu](mailto:maira.bundza@wmich.edu).



# Does Social Security Redistribute Income?: A Tax-Transfer Analysis\*

NAMKEE G. CHOI

State University of New York at Buffalo  
School of Social Work

*Despite some forced-savings elements, social security is in reality a tax-transfer system based on pay-as-you-go financing. Using a tax-transfer approach, this paper analyzes the redistributive effects of social security by comparing the 1986 benefit distribution to the retired and disabled population, their dependents, and survivors with the 1986 payroll tax incidence of the working population. Findings indicate that a considerable degree of redistribution occurs from middle- and high-income tax payers to poor and near-poor beneficiaries. The paper also analyzes the demographic characteristics of taxpayers and beneficiaries to measure redistribution among different genders, marital status, age, and racial groups.*

From its inception, the alleviation of economic inequality through redistribution of income among different economic classes has not been an intended goal of social security. As a product of the Great Depression, social security, the most comprehensive income support program in its coverage and benefit outlays, started as an uneasy compromise between the ideology of self-help and the need for, and right to, a social mechanism for protection in old age. The strong emphasis on an individual's earned right to benefits on a contractual basis led to the financing of the system through contributions without general revenue subsidy and the benefit formula linking benefits to contributions. As a result, social security has been often seen as a compulsory savings program, redistributing income from the working years to the retirement years of an individual, rather than among classes.

\*I want to thank Harry Specht for his assistance in developing this paper and for his detailed comments on earlier versions.

Regardless of some forced-savings elements, such as the flat-rate payroll tax with a maximum taxable ceiling and the earnings-related benefit formula, social security (inclusive of Old Age, Survivors, and Disability Insurance—OASDI) is in reality a tax-transfer system based on pay-as-you-go financing. Contrary to the continuous public misperception, the payroll tax collected from the working population in a given year is paid out directly to the retired and disabled populations as social security benefits. For example, in 1986, the program collected \$191 billion as payroll taxes from the estimated 152 million insured workers, and \$3.4 billion from the taxation of social security benefits of rich recipients. In the same year, the same program disbursed \$177 billion, directly out of the payroll tax revenue, to 38 million retired and disabled workers, their dependents, and survivors (Social Security Administration, 1987). Social security has been basically an unfunded system without any general revenue subsidy and with only a minimal trust fund. (Although in recent years the trust fund has been building up as the baby-boomers are in their prime working ages, it is projected that it will be rapidly depleted when the baby-boomers start to retire at the turn of the century.) (U.S. House of Representatives, 1984) Although it has not been an intended goal, social security has thus worked primarily as an income redistributive mechanism from workers to the retired, the disabled, their dependents, and survivors.

On the basis of the reality of social security financing, many students of social security have challenged the validity of the life-cycle redistribution assumption and the compulsory savings perspective. Nonetheless, quite a few studies which have been done since the 1960s on the effects of the social security program on income distribution and redistribution did not completely shed the life-cycle redistribution assumption (See Aaron, 1964; Burkhauser & Warlick, 1981; Hurd & Shoven, 1985; Leimer, 1979; Ozawa, 1974 & 1982; Pellechio & Goodfellow, 1983). Despite the divergence in the conceptual frameworks among the compulsory-savings view, annuity-welfare view, and the tax-transfer view, the general mode of analysis of redistribution through social security has been that of cost-benefit, based on the joint consideration of the tax and the benefits. The evaluation

of individual benefits was carried out in direct connection with the payroll tax paid or that would be paid by the same individual during the working years. The focus of the analyses of this contribution-benefit relationship is, therefore, on the individual gain or loss through social security. The only methodological difference among these studies was that in the annuity-welfare model, as used by Aaron, Ozawa, and Burkhauser and Warlick, much attention was paid to the difference between actuarially-justified benefits and actual benefits paid to a retiree, while in the other cases such distinction was not made.

One possible analysis of the redistributive effects of social security as a current-year tax-transfer system, however, is the comparison of the current year benefit distribution to the retired and disabled population, their dependents, and survivors with the current year payroll tax incidence on the working population. Specifically, the analysis of the extent of redistribution from the middle- and high-income working population to the poor retired and disabled population will provide an insight into the intergenerational income-distributive and redistributive function of social security.

This paper appraises the extent of such redistribution by examining the 1986 payroll tax incidence on the working population and benefit distribution among retired and disabled populations, their dependents, and survivors in 1986. An assumption here is that payroll taxes collected from the 1986 working population were paid out to all retirees and the disabled as 1986 social security benefits. In this analysis, the high-income group is defined as family members or unrelated individuals with their *pretransfer* total family or personal, respectively, income 400% or higher of the official poverty line; the middle income group as those individuals whose pretransfer family or personal income is between 399–200% of it; the near-poor group as those whose pretransfer family or personal income is between 199–100% of it; and the poor group as those whose pretransfer family or personal income is lower than 100% of it. (Pretransfer income is defined as total income excluding Aid to Families with Dependent Children benefits, Supplemental Security Benefits, and other welfare benefits, veteran's benefits, and social security benefits.)

The paper also analyzes the demographic characteristics of taxpayers and beneficiaries for the purpose of measuring the scope of redistribution within and among different gender, marital status, age, and racial groups.

### Different Perspectives on the Redistributive Function of Social Security

Despite its obvious current-year tax-benefit financing, social security is primarily regarded as a compulsory savings scheme, with adjunctive social adequacy component (—the progressive benefit formula which produces higher earnings replacement rates for low earners—a necessary element of social insurance), by the majority of the American public and the Social Security Administration (For a discussion of different views, see Munnell, 1977; Thompson, 1983). The latter has faithfully fostered the compulsory savings-social insurance view, partly because of its political advantage in maintaining public support for the program (See Cates, 1983; Derthick, 1979; Lubove, 1968; Weaver, 1982). Under this view, benefits for each retired worker are actuarially retraceable to his/her 'contributions'—payroll taxes. The public has been led to misperceive that their benefits are direct returns from the payroll taxes they pay or have paid, plus interest. In other words, the public was encouraged to view social security as an individual worker's investment in a particular benefits package to which he/she had an earned right by virtue of making social security contributions (Ross, 1982, p. 249). The reality of social security benefits which are proportionate to past earnings, despite the progressive benefit formula, has doubtlessly contributed to such a view. Even many economists, although they acknowledge the absence of a direct link between taxes and benefits, still buy in the linkage of the two in a *quid pro quo* fashion (See Tobin, 1988). So, the main thrust of this individual life-cycle transfer scheme continues to be the so-called individual equity or the actuarial fairness of the system.

Owing to the rapid expansion of eligibility and the periodic benefit increases which continued until early 1970s, however, neither a direct link nor a *quid pro quo* relationship between tax and benefits has been very realistic. This lack of direct link

between tax payments and benefits led some scholars to develop a more realistic annuity-welfare perspective. In the annuity-welfare model, benefits are perceived to consist of two parts—an equity part (meaning actuarially justifiable annuities) and adequacy part (meaning social transfer or welfare), and the above compulsory savings argument is applied only to the equity part. That is, on top of one's own annuities, an actuarial equivalent of contributions by a person throughout his/her working years, every retiree has been awarded generous intergenerational subsidies—the difference between the annuitized value of benefits and the real value of lifetime benefits, owing to the so-far comfortable worker—retiree ration. So it is argued that social security has been an intergenerational transfer scheme with respect primarily to the intergenerational subsidy, which used to be far in excess of annuities (Burkhauser & Warlick, 1981; Ozawa, 1974, 1982). But, with demographic changes and the maturity of the social security system, the situation is changing. Although the working population has come to bear an increasingly heavier payroll tax burden, the intergenerational subsidy has been markedly eroded due to an increasing proportion of the elderly in our society and, consequently, a decreasing worker-retiree ration. In addition, most covered workers are paying into the system for a longer period of time than their predecessors, thus accumulating greater annuity values of their future benefits. Under these circumstances, the decomposition of annuity and intergenerational subsidy is not likely to be possible in the near future (See Pellechio & Goodfellow, 1983).

In the tax-transfer model, social security is viewed as simply one of several government income-maintenance programs, redistributing income from the working population to the retired, the disabled, their dependents, and survivors (See Pechman, Aaron, & Taussig, 1968). As in the case of other income-maintenance programs, there is no binding reason why benefits received by an individual should bear a direct relation to taxes he/she has paid in. The taxes an individual worker pays today are not earmarked for future benefits for that particular individual tomorrow. Also, taxes levied on an individual basis, without any consideration of number of dependents, in fact, are at most tenuously related to benefits awarded largely on a family basis.

Specifically, as a means of tax transfers from current workers to those who do not work due to retirement, disablement, or death of a breadwinner, social security taxes are set at a level to finance the benefit level for those currently on the rolls (Ross, 1982).

Thus, under the tax-transfer model, the earned right to today's payroll taxpayers to a future stream of benefits does not linger on every piece of the currently legislated benefit package. The earned right has rather to be interpreted as a corresponding (moral) obligation of government to maintain a comprehensive and viable program to protect today's workers in the future (Ross, 1982, p. 249–250). The size of the transfer is more a matter of political choice.

Social security in its entirety has indeed been and will be a tax-transfer scheme with redistribution of income, from the working population to the retired, the disabled, their dependents, and survivors, as its essential function. Although some aspects of social security bookkeeping, especially the benefit computation methods based on the average indexed monthly earnings, contain the compulsory savings elements, the tax-transfer model is empirically justified and is so applied in this study.

### Methodology

The source of data for this study is the public-use micro-data tape of the 1987 Annual Demographic File of the Current Population Survey (CPS). The CPS sample is based on the civilian noninstitutional population of the United States and is designed to produce representative estimates for the entire nation. As the most comprehensive source of hierarchical information on households, families, and persons, the Annual Demographic File contains the basic annual demographic and labor force data plus additional data on work experience, income from detailed sources of income, noncash benefits, and migration. This study uses data on families and individuals (as members of families and unrelated individuals) with respect to their demographic characteristics, earnings, social security benefits, and so forth.

The payroll taxes paid in by each worker are estimated by using the 1986 combined employer-employee OASDI payroll

tax contribution rate of .114 up to the \$42,000 maximum taxable earnings. (As the employer portion of payroll taxes is known to be transferred to employees in the form of reduced rates, the adoption of the combined rate has become a conventional approach in social security analyses (See Graetz, 1988). The adoption of this approach makes unnecessary a different treatment of the self-employed, because they pay 11.4% of their earnings as payroll taxes.) All federal employees were excluded from our analysis, because although federal government employees hired since 1984 are covered by social security, it is not possible to separate them from those who are not. On the other hand, all state and local employees are included, because only a small proportion of them opted out of the OASDI. It is possible that other earnings from sectors which are not covered by social security are also included. Considering the near universal coverage of social security, however, the chance of distorting the analysis with this inclusion is minuscule.

The amount of social security benefits (including Railroad Retirement benefits) of each person as well as that of each family is directly available from the data file. Although the exclusion of the institutionalized population from the CPS sample might also be a cause of bias, the effect is not judged to be serious enough to distort findings, considering the fact that only 5% of those 65 and over are institutionalized at any given time.

### The Extent of Redistribution

According to the data in Table 1, which presents the proportion of families in each economic bracket and the numbers of payroll taxpayers and social security beneficiaries, the average number of earners per family is positively correlated with the family's income level. That is, each poor family has an average of .6 worker, as compared to 1.4 workers for a near-poor family, 1.8 workers for a middle-income family, and 2.0 workers for a high-income family. The proportion of unrelated individuals who work is also positively correlated with the income level of the group, increasing from .3 for the poor to .7 for the near poor, .8 for the middle-income group, and .9 for the high-income group.



Table 1

*Weighted Percentage Distribution of Payroll Taxpayers and Social Security Beneficiaries by Income Level, 1986*

PRETRANSFER INCOME LEVEL	% UNITS	% PERSONS	% PT PAYERS <sup>a</sup>	% RECIPIENTS <sup>b</sup>
<i>Below 100% OPL<sup>c</sup></i>				
Families	20.5( 8,817)	19.3( 25,981)	8.2( 5,513)	42.5( 6,489)
Unrelated Inds.	37.0( 7,683)	37.0( 7,683)	15.5( 1,984)	69.4( 4,494)
Total		21.7(33,664)	9.4( 7,497)	50.5(10,983)
<i>100-199% OPL</i>				
Families	16.1( 6,961)	17.0( 22,866)	14.4( 9,640)	20.5( 3,126)
Unrelated Inds.	16.3( 3,389)	16.3( 3,389)	19.5( 2,495)	14.1( 911)
Total		16.9(26,255)	15.2(12,135)	18.6( 4,037)
<i>200-399% OPL</i>				
Families	30.4(13,134)	32.5( 43,751)	34.5(23,161)	22.4( 3,416)
Unrelated Inds.	24.7( 5,126)	24.7( 5,126)	33.7( 4,319)	10.7( 695)
Total		31.4(48,876)	34.4(27,480)	18.9( 4,111)
<i>400%+ OPL</i>				
Families	33.0(14,247)	31.3(42,092)	42.9(28,774)	14.7( 2,239)
Unrelated Inds.	22.0( 4,580)	22.0( 4,580)	31.3( 4,010)	5.8( 373)
Total		30.0( 46,672)	41.0(32,784)	12.0( 2,613)
<i>Total</i>				
Families	100.0(43,159)	100.0(134,690)	100.0(67,088)	100.0(15,270)
Unrelated Inds.	100.0(20,778)	100.0( 20,778)	100.0(12,808)	100.0( 6,474)
Sum Total		100.0(155,468)	100.0(79,896)	100.0(21,744)

Source: Author's calculation based on the 1987 CPS-Annual Demographic File  
( ): Sample number of families and unrelated individuals in each economic stratum

<sup>a</sup>Excluding earners whose longest jobs were with the federal government and including only those whose earnings were greater than zero.

<sup>b</sup>Including recipients of railroad retirement benefits; although the distinction between social security benefits and railroad retirement benefits is not possible in the CPS data set, the beneficiaries of the latter constitute approximately 1% of all beneficiaries.

<sup>c</sup>Official poverty line (based on pretransfer income)

With respect to receipt of social security, however, the average number of beneficiaries per family and economic status is inversely associated: Down from an average of .7 person per poor family to .2 person per high-income family. For unrelated individuals, the same ratios go down from .6 to less than .1.

Because payroll taxes, unlike federal and state income taxes, are levied on an individual basis, the greater number of workers per family among the high-income group, in addition to their higher average earnings, translates into a larger share of tax revenues from this group. Likewise, the smaller number of workers with lower earnings among the low-income group indicates a smaller share of tax revenues from this group.

As shown in Table 2, earners of poor and near-poor families and unrelated individuals were responsible for a total of 10.2% of all payroll tax revenues in 1986. In other words, each earner in the poor group and in the near-poor group paid in an average of \$384.71 and \$986.57, respectively, as payroll taxes. The earners from middle-income families and unrelated individuals paid in a total of 31.0% of all payroll tax revenues in the same year. The average payroll taxes per earner were \$1,634.85. The high-income group—earners from families and unrelated individuals with pre-transfer total income of over 400% of the poverty line—was responsible for 58.8% of all payroll tax revenues. Their average payroll tax payments were \$2,619.98.

As for social security benefit distributions, the recipients from poor and near-poor families and unrelated individuals received 68.0%, or over two-thirds, of total benefit outlays in 1986. The recipients from the middle-income group had a much smaller share with 19.4% of all benefit outlays. The high-income group received an even smaller 12.6%, or one-eighth, of all benefit outlays. The average benefit amount for a recipient from the poor group was \$4,849.04, whereas recipients from the near-poor, middle-income, and high-income groups received an average of \$5,254.41, \$5,181.77 and \$5,301.25, respectively. Interestingly but mostly because of the progressive benefit formula, benefits received by the near-poor, middle-income, and high-income groups are not significantly different from one another. Although significantly smaller in absolute dollar amount, further analysis indicates that 47.6% of poor families and 62.9%

Table 2.

*Money-Flows from the 1986 Working Population to the 1986 Retired and Disabled Population, Their Dependents, and Survivors*

CLASS	% UNITS		EARNERS	TAX SHARE	MEAN TAX	% REC. <sup>b</sup>	BEN. SHARE	MEAN BEN.
	Family	Unr. Ind. <sup>a</sup>						
Poor (Below 100% OPL <sup>c</sup> )	20.5%	37.0%	9.4%	2.0%	\$384.71*	50.5%	48.6%	\$4,849.04**
Near-Poor (100-199% OPL)	16.1	16.3	15.2	8.2	986.57*	18.6	19.4	5,254.41
Middle (299-399% OPL)	30.4	24.7	34.4	31.0	1,634.85*	18.9	19.4	5,181.77
high (400% & over OPL)	33.0	22.0	41.0	58.8	2,19.98*	12.0	12.6	5,301.25
Total	100.0	100.0	100.0	100.0		100.0	100.0	

Source: Author's calculation based on the 1987 CPS-Annual Demographic File

<sup>a</sup>Unrelated individuals

<sup>b</sup>Social security recipients

<sup>c</sup>Official poverty line (based on pretransfer income)

\*Significantly different from one another at a .05 level

\*\*Significantly lower than all the others at a .05 level

of poor unrelated individuals who received social security benefits drew 75% or more of their total income from social security. On the other hand, 91.1% of high-income families and 89.8% of high-income unrelated individuals who received social security benefits indicated that social security benefits were less than 25% of their total income.

Comparisons between the tax incidence on the working population and the benefit distribution to the retired and the disabled, their dependents, and survivors of deceased beneficiaries obviously shows there is redistribution from earners in the middle- and high-income groups to recipients in the poor and near-poor groups. Specifically, those who belong to the poor group, or to the bottom fifth of families and the bottom one-third of unrelated individuals, paid approximately \$3.8 billion in payroll taxes, but received \$86.0 billion in benefits. The near-poor group paid \$15.7 billion in taxes and received \$34.4 billion as benefits. On the other hand, those who belong to the middle- and high-income groups paid approximately \$59.2 billion and \$112.3 billion, respectively, in payroll taxes, whereas they took back only \$34.3 billion and \$22.3 billion in social security benefits. (Moreover, because upper-middle and high-income beneficiaries are likely to pay taxes on half of their social security benefits, their actual share of social security benefits is a little less—by \$3.4 billion—than shown here.) The difference appears to have been transferred to cover benefits to the poor and near-poor groups as well as to create the surplus in the OASDI trust fund that has been growing since 1984. Thus, \$100.9 (\$120.4–\$19.5) billion, or the difference between the benefits received and the taxes paid in by the poor and near-poor groups, which is 52.8% of the total payroll tax revenues or 57.0% of the total benefit outlays, can be construed as the extent of redistribution from the middle- and high-income working populations to the poor and near-poor retired and disabled populations, their dependents, and survivors.

#### Demographics of Taxpayers and Beneficiaries

As presented in Table 3 and as expected, a majority (88.6–93.6%) of payroll taxpayers are under age 60, while a majority (87.7–90.8%) of social security recipients are age 60 or over.

When divided by income status, the poor and near-poor groups have a comparatively higher proportion of workers in the under-20 and 60-or-over age groups than the middle- and high-income groups, indicating that they may include a higher proportion of part-time workers. The poor and near-poor groups have also a slightly higher proportion of recipients who are under age 60 than the middle- and the high-income, indicating that they include a higher proportion of disabled beneficiaries and survivors.

Table 3

*Weighted Percentage Distribution of Age, Sex, Marital Status, and Race Among Payroll Taxpayers and Social Security Beneficiaries by Income Status, 1986*

	POOR		NEAR-POOR		MIDDLE		HIGH	
	<i>Below 100% OPL<sup>a</sup></i>	<i>100-199% OPL</i>	<i>200-399% OPL</i>	<i>400%+ OPL</i>	<i>T.P.<sup>b</sup></i>	<i>Rec.<sup>c</sup></i>	<i>T.P.</i>	<i>Rec.</i>
Age								
under 20	12.5	2.5	8.0	3.5	8.0	2.7	6.7	3.0
20-59	76.1	9.8	83.9	8.3	85.6	8.0	85.8	6.2
60 & over	11.4	87.7	8.2	88.2	6.4	89.3	7.5	90.8
Sex								
male	46.8	38.7	53.0	43.9	54.5	46.3	56.7	45.5
female	53.2	61.3	47.0	56.1	45.5	53.7	43.3	54.5
Marital Status								
married	35.9	45.8	52.7	60.5	59.9	62.4	65.8	65.7
single <sup>d</sup>	63.1	54.2	47.3	39.5	40.1	37.6	34.2	34.3
Race								
white	75.4	85.2	80.8	91.8	87.3	93.8	91.8	95.8
Black	21.1	13.6	15.9	7.2	10.0	4.8	5.4	2.9
Other	3.3	1.2	3.4	1.0	2.7	1.4	2.7	1.3

Source: Author's calculation based on the 1987 CPS-Annual Demographic File

<sup>a</sup>Official poverty line (based on pretransfer income)

<sup>b</sup>T.P.: Payroll taxpayers

<sup>c</sup>Rec.: Social security recipients (including railroad retirement beneficiaries)

<sup>d</sup>Including the widowed, divorced, and never married.

As for the sex distribution of taxpayers, all except the poor group have a higher proportion of males. As for recipients, there are consistently more females in all income-groups, with a more marked contrast showing among the poor. Data on marital status show that poor taxpayers and recipients are less likely to be married than the other groups of taxpayers and recipients. Approximately two thirds of high-income taxpayers and recipients are married, while less than one-half of poor taxpayers and only a little over one-third of poor beneficiaries are married. The sex and marital status distribution thus indicates that poor beneficiaries are also more likely to include widowed, divorced, and never married women of both young and old ages.

As also expected, the poor and near-poor groups have a much larger proportion of nonwhites than the middle- and the high-income groups. Specifically, in terms of percentage share of nonwhites, the poor and near-poor groups have twice as many minority taxpayers and beneficiaries as the high-income group.

As presented by the data, social security benefits are intergenerational transfer payments from those under age 60 to those over age 60. Considering the higher proportion of beneficiaries aged 59 or less among the poor and near-poor groups than among the middle- and high-income groups, an element of income transfers from high-income workers to poor and near-poor disabled nonworkers and survivors also exists. To a certain extent, income transfers from male taxpayers to female beneficiaries is also possible, because, with the exception of the poor group, there is a consistently higher proportion of male taxpayers than female taxpayers, in contrast to a consistently higher proportion of female beneficiaries than male beneficiaries. Also, given that the middle- and high-income groups have a higher rate of married taxpayers, it appears that there is an income flow from middle- and high-income married taxpayers to poor and near-poor single beneficiaries.

Due to the lower proportion of nonwhites in the sample, no definitive redistribution pattern, across income strata, related to race may be stated. But given the fact that the proportion of nonwhite taxpayers are consistently higher than the proportion of nonwhite beneficiaries in all income strata, it is likely that

nonwhite workers contribute to supporting white beneficiaries within each stratum.

In short, the findings on the demographic characteristics of payroll taxpayers and social security beneficiaries mostly conform to the generally held ideas on the composition of the tax-paying workforce and of the social security recipient population. Considering the marked gender imbalance—increasing ratio of women to men—especially among the elderly, the consistently higher proportion of female beneficiaries is not surprising. With the aging of population in general and the longer life expectancy of females as compared to males, feminization of the elderly beneficiary group is expected to proceed further in the future. Likewise, the higher level of fertility among minority and immigrant populations will diversify the working population further, and thus, the income transfer from nonwhite working population to white beneficiaries will also become more salient in the future.

### Discussion and Conclusions

Our findings indicate that a considerable degree of redistribution occurs from middle- and high-income taxpayers to poor and near-poor beneficiaries for following reasons: (a) Overall, there were still 3.7 payroll taxpayers per social security beneficiary in 1986; (b) The working population in general is better off than the retired and the disabled populations. That is, in comparison to the poor and near-poor groups, the middle- and high-income groups have a higher proportion of earners and a lower proportion of beneficiaries; and (c) Because of the progressive benefit formula, the average benefits received by a near-poor beneficiary is not significantly different from those received by a middle- or high-income beneficiaries. Thus, the social security program apparently works not only as an earnings replacement program for all retirees but also as a tax transfer payment from the middle- and high-income working populations to the poor and near-poor retired, disabled, and survivors.

Notwithstanding the impressive scope of intergenerational redistribution, the social security program has yet ample room to extend its redistributive potential, given that the percentage share of payroll taxes of the high-income group is still far

less than their ability to pay, while the percentage tax share of the low-income group far exceeds that. According to a Department of Treasury report in 1984, the top 5% of income—adjusted gross income—earners paid in 39.21% of the total federal income taxes, the top 10% of earners 50.93%, and the top 50% earners 92.69% of the total income taxes. On the opposite end, the bottom 50% of income earners paid in the rest 7.31% (Rahn, 1988). In contrast, according to our findings, the bottom 24.6% of all earners paid in 10.2% of the total payroll taxes, while the top 41% paid in 59% of the total payroll taxes.

The comparatively heavier burden of flat-rate social security payroll tax on the poor working population relative to the high-income working population is more vivid if we look at individual cases. In 1986, for example, a two-child married couple who had combined earnings of \$11,203, the poverty line income for a family of four, had to pay \$1,277 in payroll taxes, in contrast to zero dollars in federal income tax. In the same year, a couple with the same family composition but with a combined earnings of \$45,000, about 400% of the poverty line, paid in \$4,788 (in the case of one earner) to \$5,130 (in the case of two earners) as payroll taxes, in contrast to \$6,741 as the federal income tax. Earned Income Credits relieve the burden of the payroll tax for low-income families with children and reduce their effective tax rate. However, because of its limited application, singles, unrelated individuals sharing the same households, and childless couples are not able to claim the credits.

On the benefit distribution side, the progressive replacement rate apparently contributed to netting more money for the retirees with lower earnings histories than would be the case under a strict savings scheme. Nonetheless, the comparison between the proportion of beneficiaries and the percentage share of benefits in each income stratum also shows that benefits are in fact evenly distributed, with the top 12.0% of all beneficiaries receiving 12.5% of all benefit outlays and the bottom 69.1% receiving 67.3% of all benefit outlays.

Whether to materialize the redistributive potential of social security to a greater extent or not depends upon both economic and political considerations. But as the payroll tax is in fact a



form of welfare tax for the current retirees, the disabled, their dependents, and survivors, there is ample justification for making its burden as fair as possible. In the same context, as the monthly social security check is as much an intergenerational tax transfer payment as a token return of our lifetime contributions, we have reason to allocate it more according to need than according to past earnings histories.

To make social security more sensitive to the needs of the poor is entirely possible without radically transforming its basic structure and without losing popular support for the system. First, we can at least substitute a mildly progressive payroll tax rate for the current flat one. Also, the maximum taxable ceiling should be eliminated. Considering their ability to pay, those whose earnings are above the ceiling (currently about 10% of the total payroll) can bear a slightly greater burden. Second, all social security benefits, instead of just half, should be included as taxable income across the board. Third, we can adopt a less stringent permanent benefit reduction measure for low-income retirees who opt for early retirement because of ill health. Or we can relax the Disability Insurance eligibility for this group of people. Lastly, the current benefit package which awards beneficiary's spouse benefits equivalent to 50% of the beneficiary's primary insurance amount (PIA: social security benefit amount payable at age 65), unless the spouse has his/her own PIA higher than that, should be substituted by a reasonable flat homemaker credit. The current benefit package tends to favor high earners' wives more, as it awards more benefits to them than to low earners' wives.

## References

- Aaron, H. (1964). Benefits Under American Social Security. In O. Eckstein (Ed.), *Studies in the Economics of Income Maintenance* (pp. 49-72). Washington, DC: The Brookings Institution.
- Burkhauser, R. V., & Warlick, J. L. (1981). Disentangling the Annuity from the Redistributive Aspects of Social Security in the United States. *Review of Income and Wealth*, 27(4), 401-421.

- Cates, J. R. (1983). *Insuring Inequality: Administrative Leadership in Social Security, 1935–1954*. Ann Arbor, MI: The University of Michigan Press.
- Danziger, S., & Plotnick, R. (1986). Poverty and Policy: Lessons of the Last Two Decades. *Social Service Review*, 57(1), 34–51.
- Derthick, M. (1979). *Policymaking for Social Security*. Washington, DC: The Brookings Institute.
- Graetz, M. J. (1988). Retirement Security Policy: Toward a More Unified View. In T. R. Marmor and J. L. Mashaw (Eds.), *Social Security: Beyond the Rhetoric of Crisis* (pp. 91–118). Princeton, NJ: Princeton University Press.
- Hurd, M. D., & Shoven, J. B. (1985). The Distributional Impact of Social Security, In D. Wise (Ed.), *Pensions, Labor, and Individual Choice*. Chicago: The University of Chicago Press for National Bureau of Economic Research.
- Leimer, D. R. (1979). Projected Rates of Return on Future Social Security Retirees Under Alternative Benefit Structure. In *Policy Analysis With Social Security Research Files* (pp. 235–267). Washington, DC: The Social Security Administration, U.S. Department of Health, Education and Welfare.
- Lubove, R. (1968). *The Struggle for Social Security, 1900–1935*. The Harvard University Press.
- Munnell, A. H. (1977). *The Future of Social Security*. Washington, D.C.: The Brookings Institution.
- Ozawa, M. (1974). Individual Equity versus Social Adequacy in Federal Old-Age Insurance. *Social Service Review*, 48 (1), 24–37.
- (1982). Who Receives Subsidies Through Social Security and How Much? *Social Work*, 27(2), 129–134.
- (1982). *Income Maintenance and Work Incentives: Toward a Synthesis*. NY: Praeger Publishers.
- Page, B. I. (1983). *Who Gets What From Government*. Berkeley, CA: University of California Press, 1983.
- Pechman, J., Aaron, H., & Taussig, M. K. (1968). *Social Security: Perspectives for Reform*. Washington, DC: The Brookings Institute.
- Pellechio, A., & Goodfellow, G. (1983). Individual Gains and Losses From Social Security Before and After the 1983 Amendments. *The Cato Journal*, 3(2), 417–442.
- Rahn, R. W. (1988). *Income Tax Payment by Income Group*, A Department of Treasury Report (No. 16), Washington, DC: Government Printing Office.
- Ross, S. G. (1982). The Changing Nature of Social Security, in R. V. Burkhauser & K. C. Holden (Eds.), *A Challenge to Social Security* (pp. 242–260). NY: Academic Press.
- Thompson, L. H. (1983). Social Security Reform Debate. *Journal of Economic Literature*, 21, 1425–67.
- Tobin, J. (1988). The Future of Social Security: One Economist's Assessment. In T. R. Marmor & J. L. Mashaw (Eds.), *Social Security: Beyond the Rhetoric of Crisis* (pp. 41–68). Princeton, NJ: Princeton University Press.
- U.S. House of Representatives (1984). *Retirement Income for an Aging Population: A Report by the Committee on Ways and Means*. Washington, DC: U.S. Governing Printing Office.

U.S. Social Security Administration (1989). *Social Security Bulletin: Annual Statistical Supplement, 1988*. Washington, DC: U.S. Government Printing Office.

Weaver, C. L. (1982). *The Crisis in Social Security: Economic and Political Origins*. Durham, NC: Duke Press Policy Studies.