Discussion of Catherine, Miller, and Sarin "Social Security Trends in Inequality"

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Summary

Excellent paper! Clearly qualitatively correct

1. **Clever approach to address central question:** how does social security wealth affect wealth inequality?
   - Use recent parameter estimates to simulate income process
   - Code up social security policy calculator
   - Combine with counts and wealth data from SCF to estimate Social Security wealth

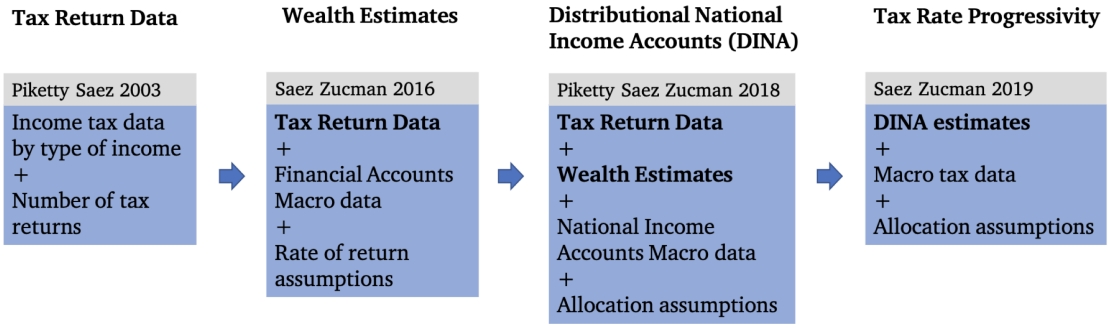
2. **Provides valuable estimates of size and distribution of social security wealth**
   - Thoughtful consideration of several issues (e.g., risk, inflation, etc)
   - Emphasis on falling interest rates

3. **Bottom line:**
   - \$34 to 40T of social security wealth, 57% of which is held by bottom 90%
   - Conclude that top wealth shares roughly flat since 1989 when including Social Security

Outline of Comments

1. Broader context of inequality literature
2. Clarify steps in calculations
3. Enumerate/rank key assumptions and show bottom line numbers in "regression" table
4. Test method using pension wealth
5. Policy counterfactuals and additional analysis

1. Putting the paper in the context of inequality literature



Recent lit: estimates distribution of key components that are not on individual tax returns

2. Clarify steps for main calculations

The path from simulated earnings sequence, policy rules, allocation, etc is involved. A simple example, enumerated steps, and detailed step-by-step process/example for a specific cohort or two would help

1. For each year, estimate **aggregate Social Security wealth by cohort**
   1. Simulate **earnings** distribution using cohort-gender-specific parameters θ from Guvenen
   2. Apply tax and benefit rules to path of earnings, take present value

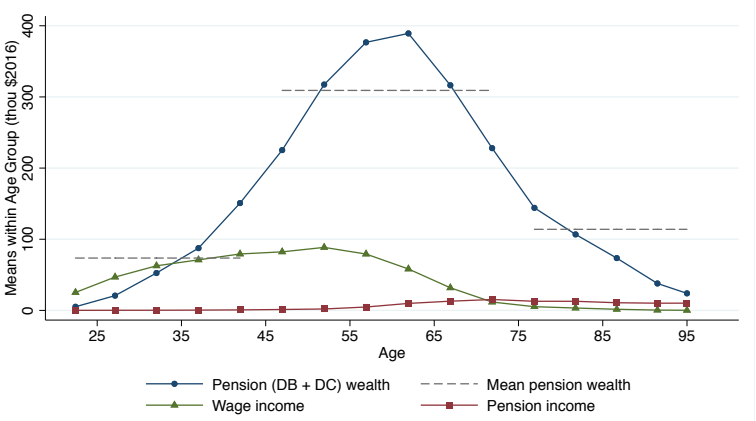
$$W_{it} = f(\textbf{mortality rates}, \textbf{r}, \textbf{benefit(earnings}(\theta)\textbf{, inflation)}, \textbf{tax(earnings}(\theta)\textbf{))} \quad (1)$$

   3. Estimate mean social security wealth $\bar{W}_{cgt}$
   4. Estimate aggregate social security wealth by cohort and year W_{ct}^{agg} using SCF counts
2. For each cohort and year, **allocate S.S. wealth** W_{ct}^{agg} between the top 10% and bot 90%
   1. In SCF, determine the fraction of the cohort that belongs to the top 10%. E.g., 5%.
   2. In the SCF, among young retirees, compute the fraction of Social Security wealth that goes to the 5%. Suppose answer is 8%.
   3. Allocate 8% of the cohort social Security wealth to its top 10%.

3. Enumerate/ rank key assumptions; show "regression-style" table

- Would be helpful to provide list of key assumptions, ranked by quantitative importance
  - **Growing mortality gap** between rich and poor but *uniform mortality rate* for cohort-year (key for correcting flat estate tax series in wealth tax shares)
  - **Growing wage inequality** but some *time-invariant parameters for income process* (best they can do, and estimated within relevant sample so represents "average" conditions)
  - Growing **assortative mating**, but abstract from survivor benefits (may be small)
  - ...
- Provide "regression table" showing key outputs (top shares, aggregate SS wealth, etc) for different combos of inputs and assumptions
- Provide corrected top share graphs with different series for main combos of plausible inputs and assumptions

4. Test allocation method using DC pension wealth in SCF



Sources: Smith, Zidar, and Zwick (2020).

5. Policy counterfactuals and additional analysis

Setup in this paper could be used to do interesting follow up analysis

- Effects of raising retirement age?
- Effects of Biden payroll tax proposal?
- Estimating social security wealth by race (would require income parameters by race-cohort)
- Financial returns by group
- How progressive is the Social security system (y-axis: wealth with SS, x-axis: wealth without SS)? How has the amount of progressivity changed overtime and by cohort?
    - Progressive benefit formula, but rich are living longer and more likely to be married