Social Security and the Racial Wealth Gap

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Motivation – Evolution of top 10% wealth share

Including Social Security
(Catherine et al. 2022)
Motivation – Persistent wealth gap despite tightening of earnings gap

A. Earnings

B. Marketable Wealth

Gap of medians

Year

Black American

Hispanic American
This paper – How does Social Security wealth impact the racial wealth gap?

- **Compute Social Security wealth**
  - Present value of future benefits, net of future taxes
  - year x age x race x gender specific mortality rates
  - Retirees: Base off Survey of Consumer Finances (SCF)
  - Workers: Estimate from simulated income paths based on data moments from Guvenen et al. (2021)

- **Distribute Social Security wealth across observations in the SCF**

- **Study the racial wealth gap**
Social Security wealth is much more equitably distributed
Social Security’s progressive design

- **Share of the population**
  - Decile of lifetime earnings
  - Black
  - Hispanic
  - White

- **Mean Replacement Rate**
  - White
  - Black
  - Hisp.
  - Other
Social Security’s equalizing effect

A. Earnings

B. Marketable Wealth

C. Total Wealth

Gap of medians

Year

1990 2000 2010 2020

Black American

Hispanic American
Middle class convergence

A. 1989 and 1992

B. 2016 and 2019
Gaps – Means vs. Medians

A. Median Total Wealth

B. Mean Total Wealth

Year

Black American

Hispanic American
Minority portfolios are disproportionately illiquid
Funding gap will disproportionately affect minorities
Conclusion

• Catherine et al. 2022 shows the large effect Social Security has on inequality trends
  – Top wealth shares have not increased once Social Security wealth is accounted for

• Consequentially, Social Security wealth helps shrink the racial wealth gap
  – The paper is concerned with the trends, not levels
  – Market wealth inequality is still a persistent problem

• Policy makers should take into account the effect of Social Security wealth when addressing relevant policy