Social Security and the Long-Run Evolution of the Racial Wealth Gap

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Introduction

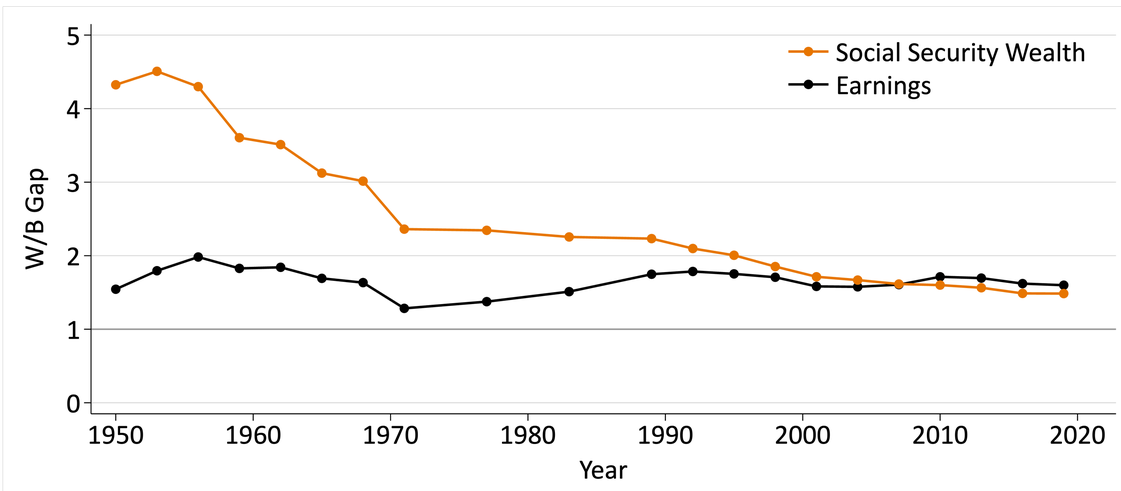
- **Race** is one of the **key stratifying dimensions of wealth** in the U.S.
- Most research on the white-to-Black wealth gap focuses solely on market wealth, excluding **Social Security wealth (SSW)**, an asset that is
  - **key for retirement:** Social Security benefits are the largest single income source in old age
  - **tied to one of the central motives for wealth accumulation:** smoothing consumption over the life cycle
  - **disproportionately important for Black Americans** and may depress private savings, especially in lower-earning brackets, in which they are overrepresented
- An emerging literature shows that including SSW **lowers levels of racial wealth inequality** and reverses or attenuates rising inequality trends. This literature focuses on the modern waves of the Survey of Consumer Finances (SCF) from 1989 onward
- I construct the **first time series of white-to-Black SSW and augmented wealth (market wealth + SSW) gaps extending back to 1950**

Data and Method

- **Primary Data:** SCF+, which links the historical and modern SCF waves
  - Restricted to the working-age population (ages 18-61) due to data restrictions
- **Definition of SSW:** present value of survival-adjusted future retirement benefits less the present value of survival-adjusted future payroll taxes
- **Assumptions:** data limitations require several simplifying assumptions
  - Most importantly: (i) the head's age for all adults in a household, (ii) evenly distributed intra-household earnings, (iii) no spousal or survivor benefits, (iv) only male survival probabilities and Social Security rules, (v) retirement at age 62
  - Estimates are expected to provide a lower bound on SSW by race and an upper bound on both the racial SSW and augmented wealth gaps. For recent decades, the estimates match the qualitative patterns documented by prior work
- **Estimation of SSW:**
  1. Construct age-earnings profiles from cross-sectional regressions with race interactions
  2. Adjust age-earnings profiles for race-specific Social Security coverage rates (first long-run coverage time series by race)
  3. Determine payroll taxes, eligibility, and retirement benefits (full history of Social Security rules)
  4. Adjust age-tax and age-benefit profiles for race-specific survival probabilities (overall survival probabilities adjusted for racial differences in life expectancy)
  5. Discount using historical and projected nominal interest rates
- **Measurement of Racial Inequality:** white-to-Black per capita wealth ratio for each wealth concept (SSW, market wealth, augmented wealth)

Results

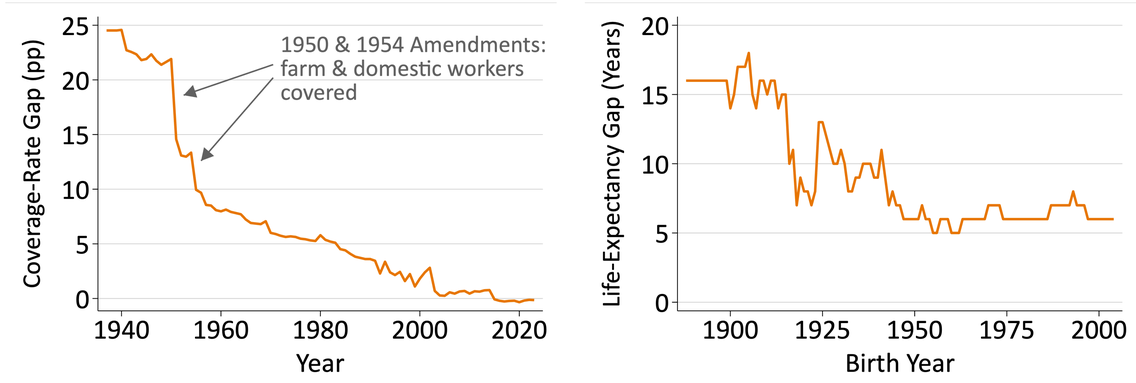
The racial Social Security wealth (SSW) gap fell substantially and converged with the earnings gap, which widened slightly



Note: White-to-Black per capita ratios of Social Security wealth and of earnings for the working-age population from 1950 to 2019. Social Security wealth is based on scheduled benefits. White is the non-Black population.

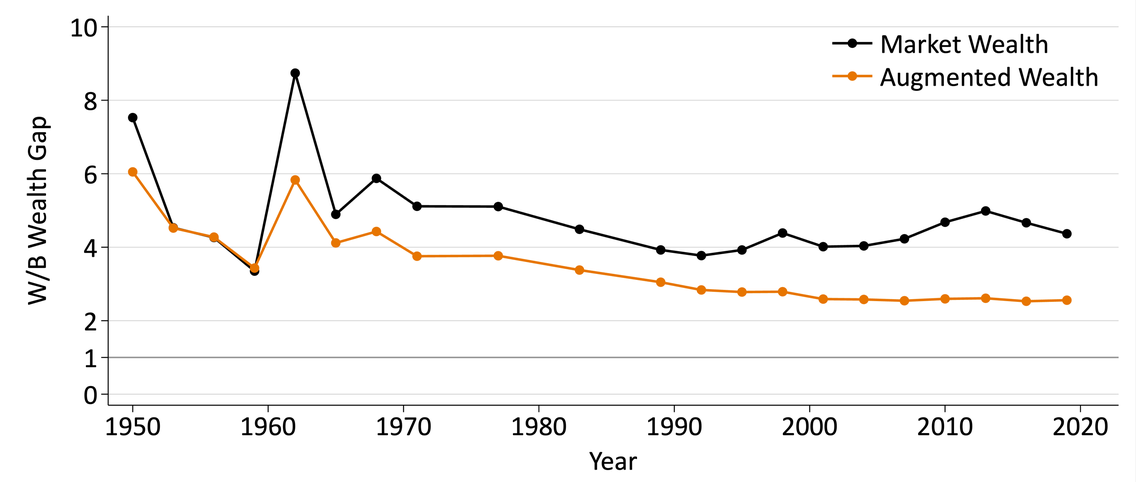
Results (Continued)

The decline in the racial SSW gap coincided with the complete closing of the coverage gap and a pronounced but partial closing of the life-expectancy gap



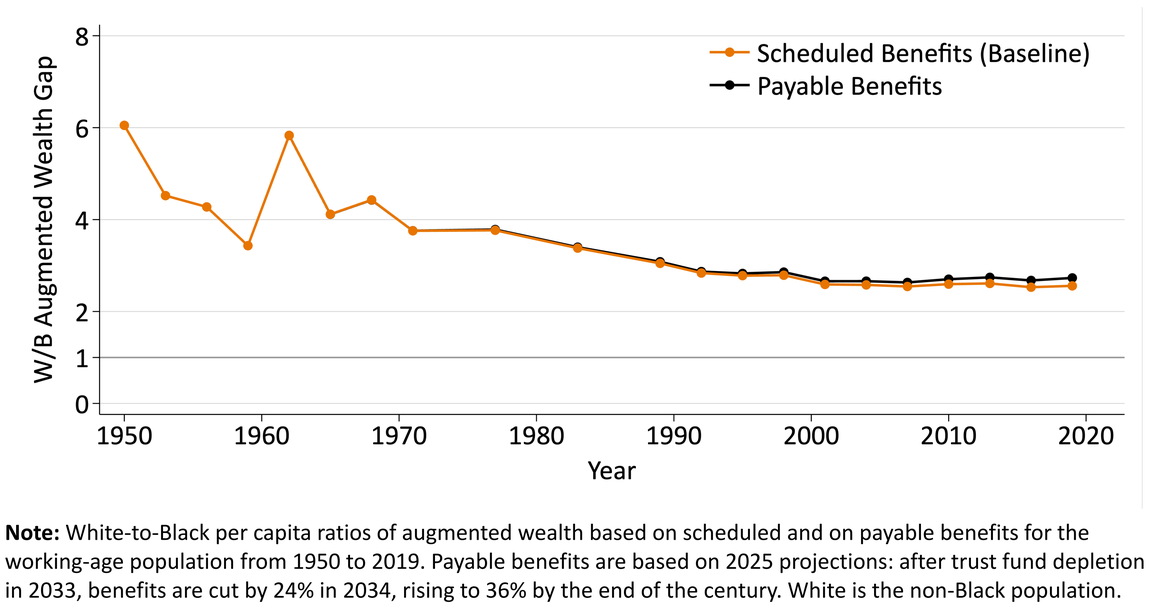
Note: *Left:* Percentage-point difference in Social Security coverage rates between white and Black civilian workers from 1937 (the beginning of the Social Security program) to 2023. The future difference is assumed to stay at its 2023 level. White is the non-Black population. *Right:* Difference in life expectancy at birth between the overall and Black populations for birth years 1888 (the earliest in my sample) to 2004 (the latest in my sample).

Augmenting market wealth by SSW lowers the racial wealth gap, steepens its long-run decline, and reverses its rise in recent decades



Note: White-to-Black per capita ratios of market wealth (marketable net wealth) and of augmented wealth (market wealth + Social Security wealth) for the working-age population from 1950 to 2019. Social Security wealth is based on scheduled benefits. White is the non-Black population.

Accounting for the Social Security funding gap widens the augmented wealth gap only modestly in recent decades



Note: White-to-Black per capita ratios of augmented wealth based on scheduled and on payable benefits for the working-age population from 1950 to 2019. Payable benefits are based on 2025 projections: after trust fund depletion in 2033, benefits are cut by 24% in 2034, rising to 36% by the end of the century. White is the non-Black population.

Conclusion

- The **racial SSW gap fell from 4.3 in 1950 to 1.5 in 2019** and **converged with the earnings gap**, reflecting the **narrowing of other gaps**: coverage and life expectancy
- **Adding SSW to market wealth lowers the level of racial inequality** (weakly in all years, strictly in most) **and steepens its 1950-2019 decline from 42% to 58%**
- Although **accounting for the Social Security funding gap substantially lowers SSW for both racial groups** in recent decades (by 24-25% in 2019), it **widens the augmented wealth gap only modestly**
- Estimates are conservative: **true SSW and augmented wealth gaps may be lower**

Contact

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Full Working Paper