

The Retirement Income of the Prime Working Aged

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Overview

- A growing literature has examined tax expenditures as social policy, often contrasting it to the welfare state.
- The private pension system is a key aspect of taxation as social policy, but private pension income is not captured well by household surveys.
- Using linked survey data and administrative records, I find that:
 - Early withdrawals from pensions and retirement accounts are a substantively large source of income for prime working age persons
 - These withdrawals are common across personal and household characteristics.

A “hidden”, “divided”, “invisible” welfare state

- Governments redistribute across households and the life course through social programs.
- Governments also redistribute through tax expenditures with social welfare objectives.
 - Tax-advantaged retirement saving
 - Mortgage interest tax deduction
 - Employer-sponsored health insurance
 - Earned Income Tax Credit (EITC)

Do household income surveys measure the hidden welfare state?

- Income surveys often ask about:
 - Retirement income and assets
 - EITC
- Income surveys generally do NOT ask about:
 - The mortgage interest tax deduction
 - Employer contributions to employer-sponsored health insurance

Measurement error in retirement income data

- Household surveys do not capture retirement income well
 - For households headed by someone age 65 or older, CPS ASEC captures just 46 percent of pension and retirement account income (Bee and Mitchell 2017).

Additional considerations for prime working age respondents

- Household surveys may not ask respondents who have never retired about receipt of retirement income.
- Household surveys may not ask about irregular income flows.
- Early withdrawals from pensions and retirement accounts are often discouraged by retirement advisors, which may contribute to underreporting.

Research questions

1. How well does SIPP capture early retirement withdrawals?
2. How large is retirement income relative to program income?
3. How does retirement income receipt in prime working age vary by earnings quintile?
4. Does retirement income receipt vary across other personal and household characteristics?

Data

- 2018 SIPP (reference year 2017)
- IRS 1099-R records of pension and retirement account income
 - Income from pension annuities, defined contribution retirement accounts (401(k), 403(b), etc.), IRAs, life insurance contracts, and disability or survivor income from these sources
- SSA Detailed Earnings Record
 - Earnings for the previous five years
 - Employer-sponsored pension and retirement account contributions for the previous five years

Linkage and reweighting

- SIPP respondents are linked with a Protected Identification Key (PIK)
 - Probabilistic record linkage based on name, age, and address
 - 97.6% match rate
- Reweighted using inverse probability weighting to account for differential rates of record linkage

Retirement income receipt

- 12 percent of SIPP respondents have a 1099-R record of retirement income receipt.
- 1.3 percent of SIPP respondents have a 1099-R record of retirement income receipt and report this income in SIPP.

Retirement income in aggregate

Income source	All persons aged 25-54	
	Survey reported	Retirement income substituted with 1099-R records
Retirement income	472	1,554
Program income	1,015	
Earnings and property income	57,210	
Other income	1,007	
Total income	59,700	60,784

Source: Survey of Income and Program Participation, calendar year 2018 (reference year 2017); IRS 1099-R.

Note: In 2017 dollars. Amounts rounded to four significant digits.

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Program and retirement income are “divided”.

Income source	Conditional on program income receipt	Conditional on retirement income receipt
Retirement income (tax records)	3,410	12,980
Program income (survey reported)	10,170	2,050
Earnings and property income (survey reported)	34,430	70,790
Other income (survey reported)	1,300	2,200
Total income	49,310	88,020

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Patterns of receipt by five-year earnings quintile

Earnings quintile	Percent receipt of retirement income		
No earnings	4.0%		
1	5.5%		
2	9.3%		
3	13.5%		
4	14.4%		
5	17.9%		

Source: Survey of Income and Program Participation, calendar year 2018 (reference year 2017); IRS 1099-R; SSA Detailed Earnings Record.

Note: Amounts rounded to four significant digits.

Patterns of receipt by five-year earnings quintile

Earnings quintile	Percent receipt of retirement income	Percent receipt of retirement income, conditional on contributions within the previous five years	
No earnings	4.0%	NA	
1	5.5%	19.9%	
2	9.3%	19.5%	
3	13.5%	19.1%	
4	14.4%	17.7%	
5	17.9%	18.8%	

Source: Survey of Income and Program Participation, calendar year 2018 (reference year 2017); IRS 1099-R; SSA Detailed Earnings Record.

Note: Amounts rounded to four significant digits.

Patterns of receipt by five-year earnings quintile

Earnings quintile	Percent receipt of retirement income	Percent receipt of retirement income, conditional on contributions within the previous five years	Median retirement income, conditional on any receipt
No earnings	4.0%	NA	6,249
1	5.5%	19.9%	4,863
2	9.3%	19.5%	1,493
3	13.5%	19.1%	2,754
4	14.4%	17.7%	6,636
5	17.9%	18.8%	6,533

Source: Survey of Income and Program Participation, calendar year 2018 (reference year 2017); IRS 1099-R; SSA Detailed Earnings Record.

Note: Amounts rounded to four significant digits. In 2017 dollars.

Does retirement income receipt vary across other personal and household characteristics?

More likely to receive

- Non-Hispanic Black
- Homeowners
- Native born
- Age 45-54

Less likely to receive

- Non-Hispanic Asian and Hispanic of any race
- Renters
- Foreign born
- Age 25-34 and 35-44

Caveats

- Administrative records may also contain error.
 - Data entry error
 - Errors in variables used to link individuals
- Error patterns may be different in other surveys.

Conclusion

1. SIPP undercounts early pension and retirement account income.
2. Retirement income during prime working age is more than three times as large as program income.
3. The propensity to receive retirement income during prime working is positive correlated with earnings quintile.
4. Retirement income receipt varies across other personal and household characteristics, but receipt is not confined to specific groups.

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