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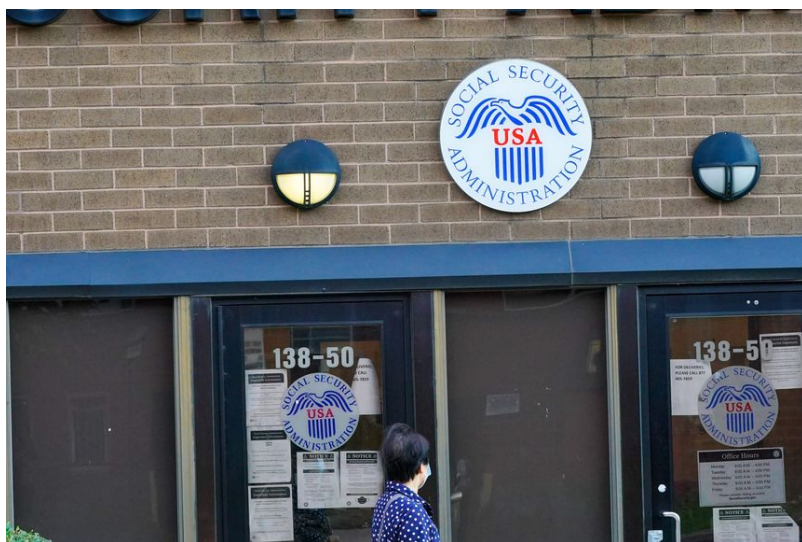
OPINION | REVIEW & OUTLOOK

A Distorted View of Wealth Inequality

Include pensions and Social Security, and the figures are less stark.

By [The Editorial Board](#)

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The New York State Social Security Administration in Flushing, New York, Oct. 20, 2020.

PHOTO: JOHN NACION/ZUMA PRESS

Americans may be richer than they think and less unequal than they've been led to believe. That's the takeaway from a recent working paper by five economists from the University of Wisconsin and the Federal Reserve, which adds to standard wealth measures by including Social Security and pension guarantees.

Social Security benefits and defined-benefit pensions—employer pensions promising a fixed income in retirement—don't show up in workers' bank accounts, but their promised future payouts are worth trillions of dollars. Include the full present value of retirement assets, the paper shows, and the median American household headed by someone in his or her 40s had a net worth in 2019 of \$402,000. At the 75th percentile, the figure was \$1.15 million.

That makes a big difference for wealth inequality. As [the authors write](#): "Our estimates show that the value of DB pensions and Social Security are significant relative to other

forms of wealth—throughout the wealth distribution but especially at the lower half of the wealth distribution.”

There are strong reasons to include pension and Social Security guarantees in wealth calculations. Most workers forfeit 12.4% of their income annually in payroll taxes in return for Social Security payouts starting in their 60s, but that wealth is ignored in standard inequality measures. If it weren't for Social Security and pensions, workers would need to save more, and have less disposable income, to secure the same future standard of living.

It's true that Social Security and some pensions are political promises rather than property rights. But as anyone who has tried to transform Social Security or public-employee pensions into private accounts has discovered, they are politically similar to property rights for beneficiaries.

In the 40 to 59 age group that is the paper's focus, the top 5% of households control 63.5% of “market wealth”—liquid assets, housing, and accounts like 401(k)s. But include future pension and Social Security income, and the top 5% share is a more modest 45.4%, the authors find.

Under this measure of wealth, the increase in inequality over time has also been less steep. While the share of “market wealth” held by the top 5% of households age 40 to 59 increased 15% over the last 30 years, their share increased only 10.2% with Social Security and defined-benefit pensions included.

This study follows a [2020 paper](#) from three University of Pennsylvania researchers that found an even greater impact of Social Security on inequality trends, using a different methodology and sample. They write that “Social Security promises rose in value by over 200 percent in real terms between 1989–2016.” Include Social Security in wealth calculations, and there has been “either only a minimal increase in the top 1% share,” the paper found, “or even a decrease.”

The promoters of wealth taxes and income redistribution will ignore this data because it undermines their narrative of economic injustice. But we thought readers might appreciate knowing the facts for the next time they hear politicians and the press describe America as a Dickens novel of haves and have nots.

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