Earnings, Disability Incidence, and Mortality Are Key Factors That Influence Taxes Paid and Benefits Received

What GAO Found

Lifetime earnings, the incidence of disability, and mortality are three key factors that influence the taxes individuals pay into the Social Security system and the benefits they receive. Lifetime earnings factor directly into the Social Security benefit formula, which is designed to replace a larger proportion of pre-retirement-covered earnings for low-income earners than for higher-income earners. Additionally, the probability of being on the Disability Insurance rolls affects the expected value of benefits. People who are disabled start receiving benefits earlier. The third factor, mortality, affects the benefits received relative to taxes paid because it determines the number of years a person will pay taxes and receive benefits.

Differences by race in the relationship between taxes paid and benefits received under Social Security are due mainly to differences in lifetime earnings, the incidence of disability, and mortality among the groups. In the aggregate, blacks and Hispanics have higher disability rates and lower lifetime earnings, and thus as a group tend to receive greater benefits relative to taxes than whites. However, whites with low lifetime earnings or high disability rates also receive greater benefits relative to taxes than their higher-income or nondisabled counterparts. Higher benefits relative to taxes paid are associated with lower lifetime earnings and higher disability incidence.