Comments on Allocation Methods for "Other" Components

The National Academies of SCIENCES ENGINEERING MEDICINE

Committee on National Statistics

Karen Dynan
Harvard University Economics Department
Harvard Kennedy School

CNSTAT Expert Meeting
December 3, 2020

TABLE 1 – Construction of BEA Prototype Household Income (HI) Statistics

Personal Income (PI) Component and How Allocated to CPS ASEC Persons/Households (code in parens)	Explanation of Allocation Code
Adjusted Money Income (AMI)[a] (73.5% of Total HI)	(1) PI amount allocated proportionately to corresponding variable in CPS ASEC
Wages and salaries (1, 2)	(2) Adjustment made to allocate proportionately more income to households with AMI of $500,000 or more, based on IRS/SOI data
Farm income (1, 2)	(3) Allocated using CBO adjustment for underreporting in CPS ASEC
Nonfarm income (1, 2)	(4) Allocated using educational assistance received by CPS ASEC household
Rental income of persons (1, 2)	(5) Allocated using CPS ASEC wages
Interest income (1, 2)	(6) Allocated using imputation from CE data by income bracket
Dividend income (1, 2)	(7) Allocated using imputation from SCF data
Federal cash benefits (Social Security, unemployment insurance (UI), Railroad Retirement, black lung benefits, Pension Benefit Guaranty, veterans' benefits, workmen's compensation (WC)) (1)	(8) Allocated to CPS ASEC households with active military members
State and local cash benefits (e.g., temporary disability insurance, assistance, employment and training, education) (1)	(9) Allocated by assigning state average expenditure (from CMS) to CPS ASEC persons reporting receipt of Medicare
Supplemental Security Income (3)	(10) Allocated to CPS ASEC households reporting SNAP, WIC, other welfare assistance
Transfer receipts from nonprofit institutions (4)	(11) Allocated to CPS ASEC households reporting children covered by CHIP
Financial Items (12.2% of Total HI)	(12) Allocated using imputed FICA value in CPS ASEC
Employer contributions to pensions/profit-sharing (5)	(13) Allocated by total value of CPS ASEC earned income tax credit, child tax credits
Employer contributions to life insurance (5)	(14) Allocated equally to CPS ASEC households
Rental income from owner-occupied housing (6)	
Imputed interest (7)	
Health Items (12.0% of Total HI)	
Employer health insurance contributions (1)	
Military medical insurance (8)	
Medicare (9)	
Medicaid (3)	
Other medical assistance (10)	
Children's Health Insurance Program (CHIP) (11)	
Other Transfers (net) (2.3% of Total HI)	
Employer/employee contributions to OASDI (12)	
Employer contributions to WC/supplemental UI (5)	
Other employer/employee/self-employed contributions to government social insurance (5)	
Military medical insurance ((federal benefits and employee/self-employed contributions) (8)	
Supplemental Nutrition Assistance Program (SNAP) (3)	
Refundable tax credits (13)	
Energy assistance, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (1)	
Transfer receipts from business (net) (14)	
All other transfers (10)	

SOURCE: Gindelsky (2020).

[a]AMI: CPS ASEC regular money income minus items not included in PI (e.g., retirement disbursements, certain sources of disability and survivor income).

Was asked to cover everything in blue but will focus on Financial Items because they are quantitatively the most important

Imputed interest (mainly on employer pension plans) the largest, followed by employer contributions to pension plans, and imputed rent on owner-occupied housing

General comments

This is an impressive effort

> It's clear that a lot of thought has gone into it and I think the end result will be very useful to people trying to understand how the distribution of income evolves with the macroeconomy
>
> Kudos to Marina for such a clear and concise paper explaining the methodology

I don't have major disagreements about the methodology but I will raise some questions about areas that might need more thought

Employer contribution to pensions

"allocated using CPS ASEC wages"

Does the calculation take into account uneven access to retirement plans by income group? [only 25% of civilian workers have access to a DB plan, only 60% have access to a DC plan with systematic patterns by industry likely correlated with wages]

Do the contribution limits on 401(k)s matter? [maybe not as the employer match is usually limited and thus goes away before people hit the limit]

Do DB pension accruals rise proportionately with income? [I have no idea but there is probably something to be learned from the literature]

Imputed rent on owner-occupied housing

"allocated using imputation from CE data by income bracket"

[based on median ratio of reported rental value of home to income]

What is the current thinking on whether the quality/coverage of the CE diminishes at the top? [it's a lot to ask high-opportunity-cost households to sit for a several hour survey]

Anecdotal and academic evidence that owners' views of home prices are backward-looking—might the same would be true for their rent assessments? [only matters if there is important variation by income group but, if so, it could make a difference around, particularly around housing cycle turning points]

Imputed interest rent on employee pension plans (both defined benefit and defined contribution)

"allocated using imputation from SCF data"

[based on distribution of IRAs (and 401(k)s?)—the SCF does not have information about holdings in DB plans]

The big issue here is whether the distribution of DB wealth is similar to that of DC wealth (and also whether the relationship moves together over time)

One view: DBs are going away so not important

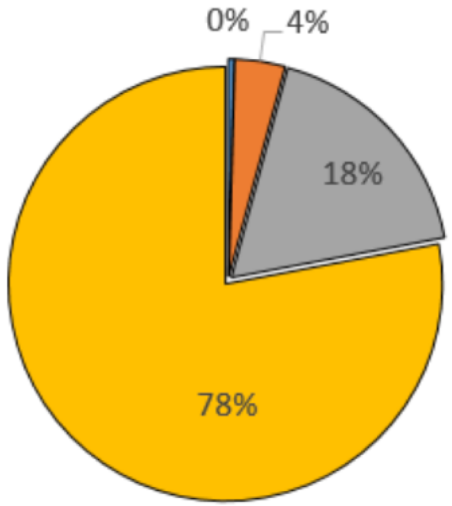
Yes, they are going away for workers but there are still a lot of retired people with a lot of DB wealth

Another view: Method okay because, as Sabelhaus and Volz (2019) show, the distribution of DBs and DCs by wealth quartile is similar

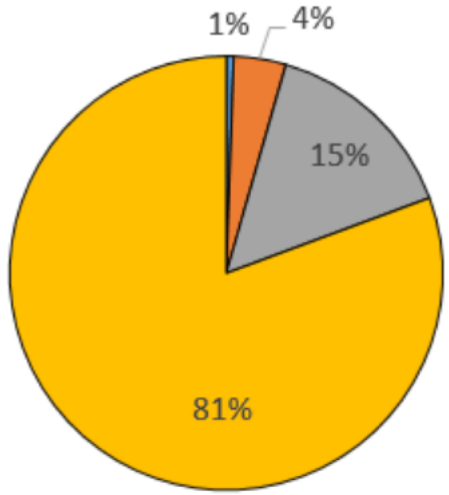
See next slide

Imputed interest rent on employee pension plans (both defined benefit and defined contribution)

Concentration of DB Assets by Wealth Quartile, 2016



Concentration of DC Assets by Wealth Quartile, 2016



Yes, but is the distribution *by income* similar? Not clear—retired people (who have a lot of DB wealth) are higher in the wealth distribution than they are in the income distribution

Not sure which way the bias goes, but potential avenues to assess if this matters:

- Get more data from Sabelhaus and Volz
- Use the Health and Retirement Study, which has estimates of defined benefit wealth, to do the allocation

A non-methodology thought

An interpretation issue for those of us interested in patterns over the business cycle:

The share of life-time "well-off" people in the lower deciles will rise in recessions as higher-income people lose their jobs

Their financial income will push up average income in those deciles

The harm that business cycles do to poor and lower-income households will be understated by these accounts