Redistribution from a lifetime perspective: background and methodology

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A decile chart from our July 2015 budget analysis
Why a lifetime perspective?

• Individuals typically live for many years so it makes sense to consider outcomes over the whole lifetime

• Data limitations mean most analysis of the tax and benefit system is based on snapshot information

• Snapshot approaches cannot account for changes in circumstances
  – Informative about the lifetime if there is substantial immobility
  – But evidence suggests circumstances do change

• Snapshot may still matter
  – If current period likely to be important from a lifetime perspective
  – E.g. borrowing constraints or uncertainty

• But lifetime analysis is needed
What we do

• Investigate how our impression of the redistribution achieved by the tax and benefit system changes when we take a lifetime perspective rather than the standard snapshot approach
  – Current (2015/16) tax and benefit system
  – Historical tax and benefit reforms over the last 40 years
  – Hypothetical reforms to the current tax and benefit system
Methodology

• Based on simulated data because no UK survey or administrative dataset can provide information about full lifecycles

• Simulations:
  – Designed to replicate experiences of baby-boom cohort (1945-54)
  – British Household Panel Survey (BHPS) used to model transitions between consecutive years
  – Living Costs and Food Survey (LCFS) used to adjust simulations to match cross-sectional distributions for the baby-boom cohort
  – Include most personal taxes and benefits, assuming full take-up; exclude benefits of public service spending
  – May understate earnings at the top and overstate degree of mobility

• Construct a synthetic cross-section that describes what population would look like if all cohorts were the same as baby-boom cohort

• Results likely to be sensitive to modelling assumptions
What do we learn from the lifetime simulations?

- Lots of outcomes vary considerably over life
- Simulations capture key patterns in real data
  - Individuals partner and have children during their 20s and 30s
  - Employment higher among men than women, particularly during main child-bearing years
  - Earnings peak around age 50
  - Individuals withdraw gradually from the labour market at age 50-75
  - Some receive private pensions
  - Women live longer than men, the rich longer than the poor
- What’s new: can compare cross-sectional and lifetime outcomes
The poor aren’t always out of work

Notes: see Figure 2.4 in ‘Redistribution from a Lifetime Perspective’
Means-tested benefit entitlement is widespread

Notes: see Figure 2.7 in ‘Redistribution from a Lifetime Perspective’
The poor aren’t always poor, the rich more often remain rich

Notes: see Figure 2.8 in ‘Redistribution from a Lifetime Perspective’
Summary

• The poor aren’t always out of work
• Means-tested benefit entitlement is widespread
• The poor aren’t always poor, the rich more often remain rich