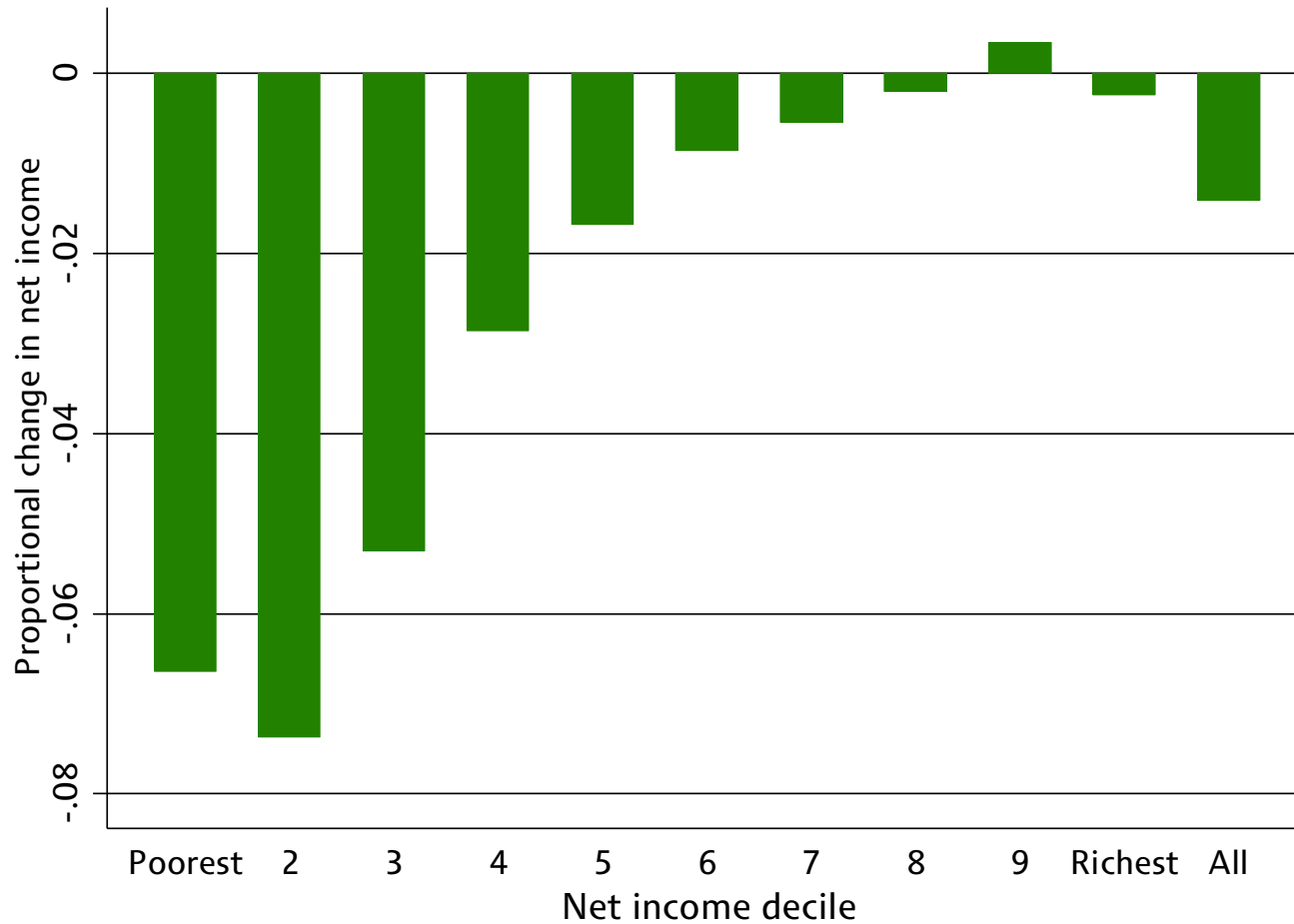# Redistribution from a lifetime perspective: background and methodology

Jonathan Shaw

A decile chart from our July 2015 budget analysis

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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

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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

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# 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

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The poor aren't always out of work
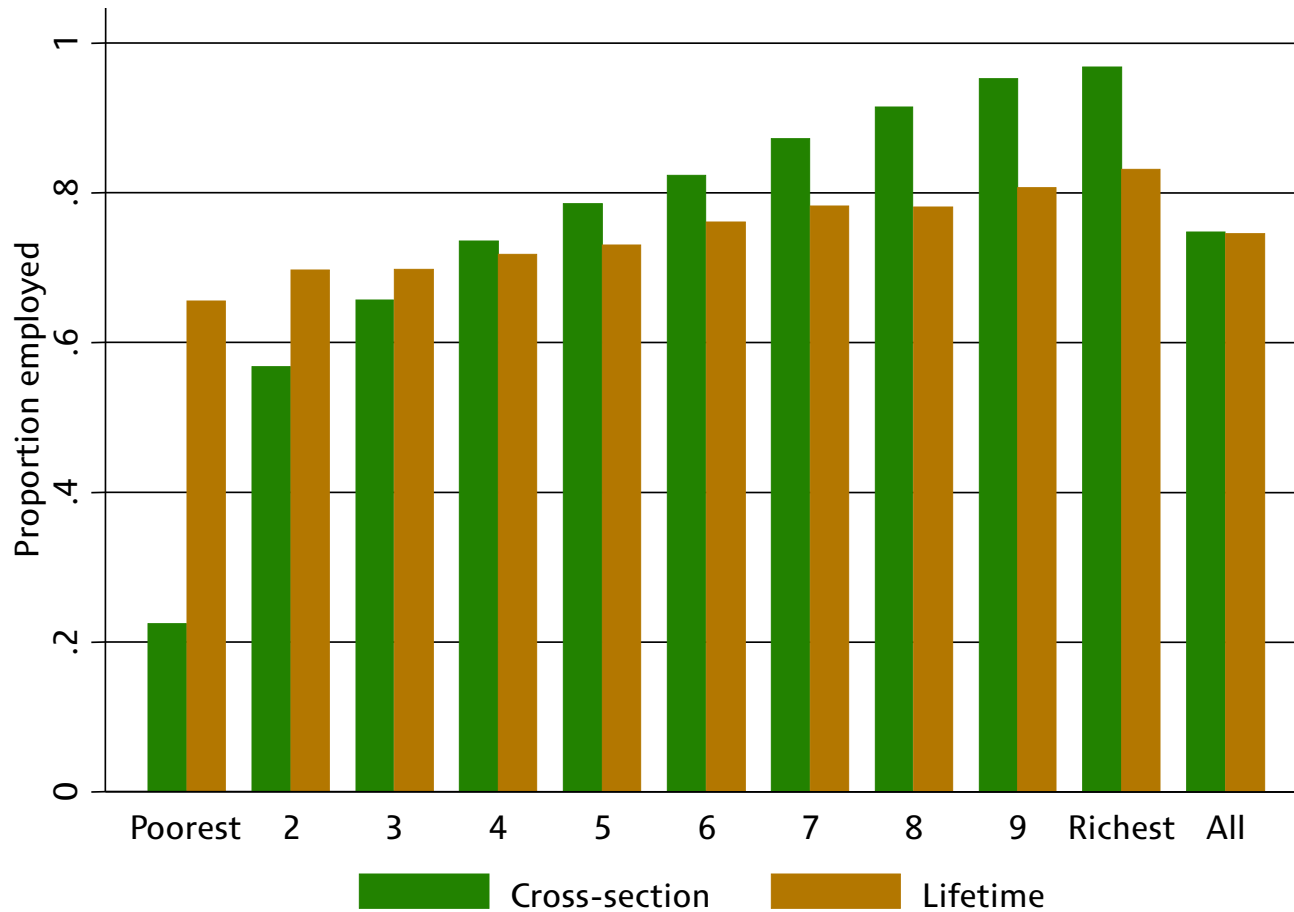
Notes: see Figure 2.4 in 'Redistribution from a Lifetime Perspective'

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Means-tested benefit entitlement is widespread
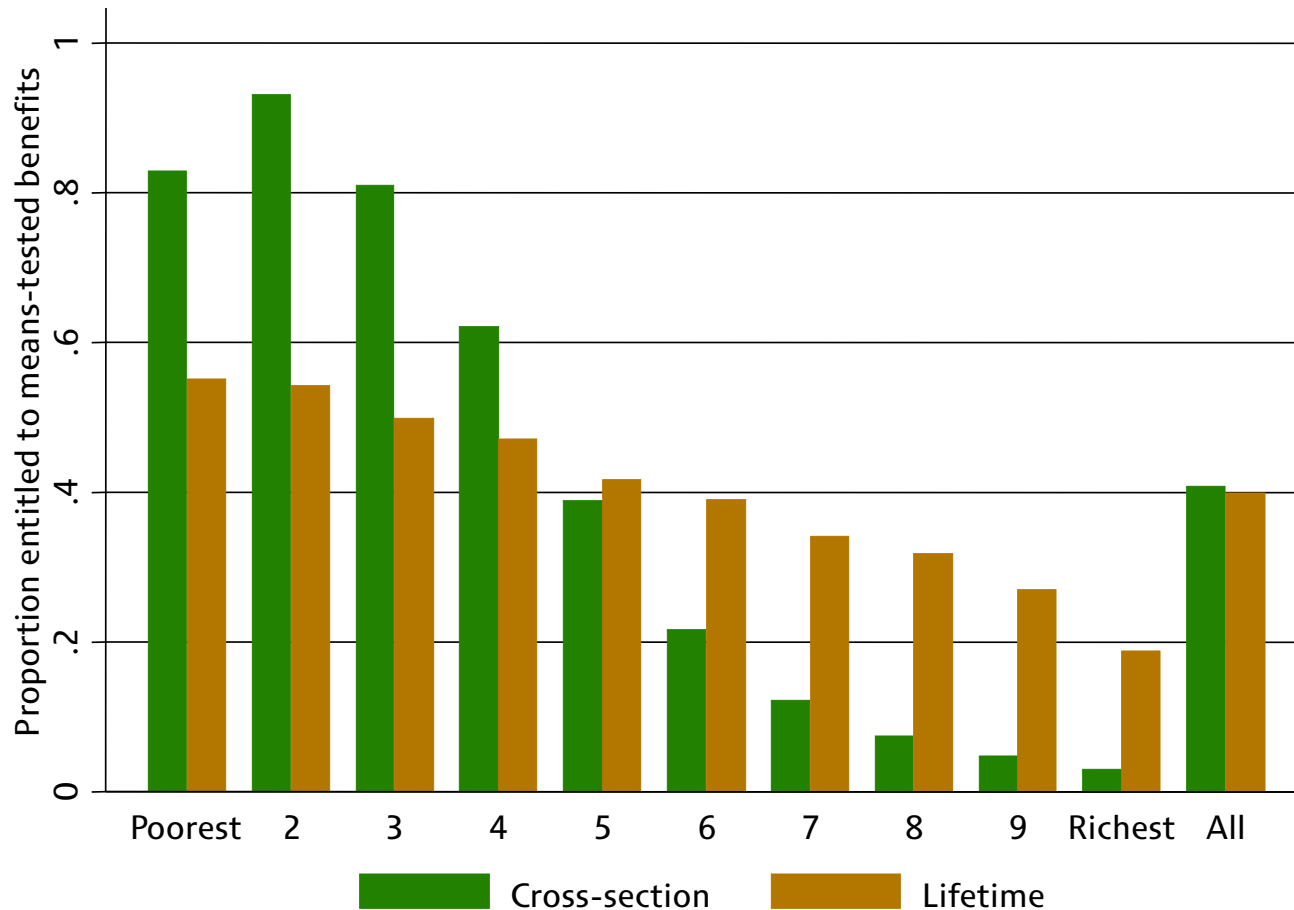
Notes: see Figure 2.7 in 'Redistribution from a Lifetime Perspective'

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The poor aren't always poor, the rich more often remain rich
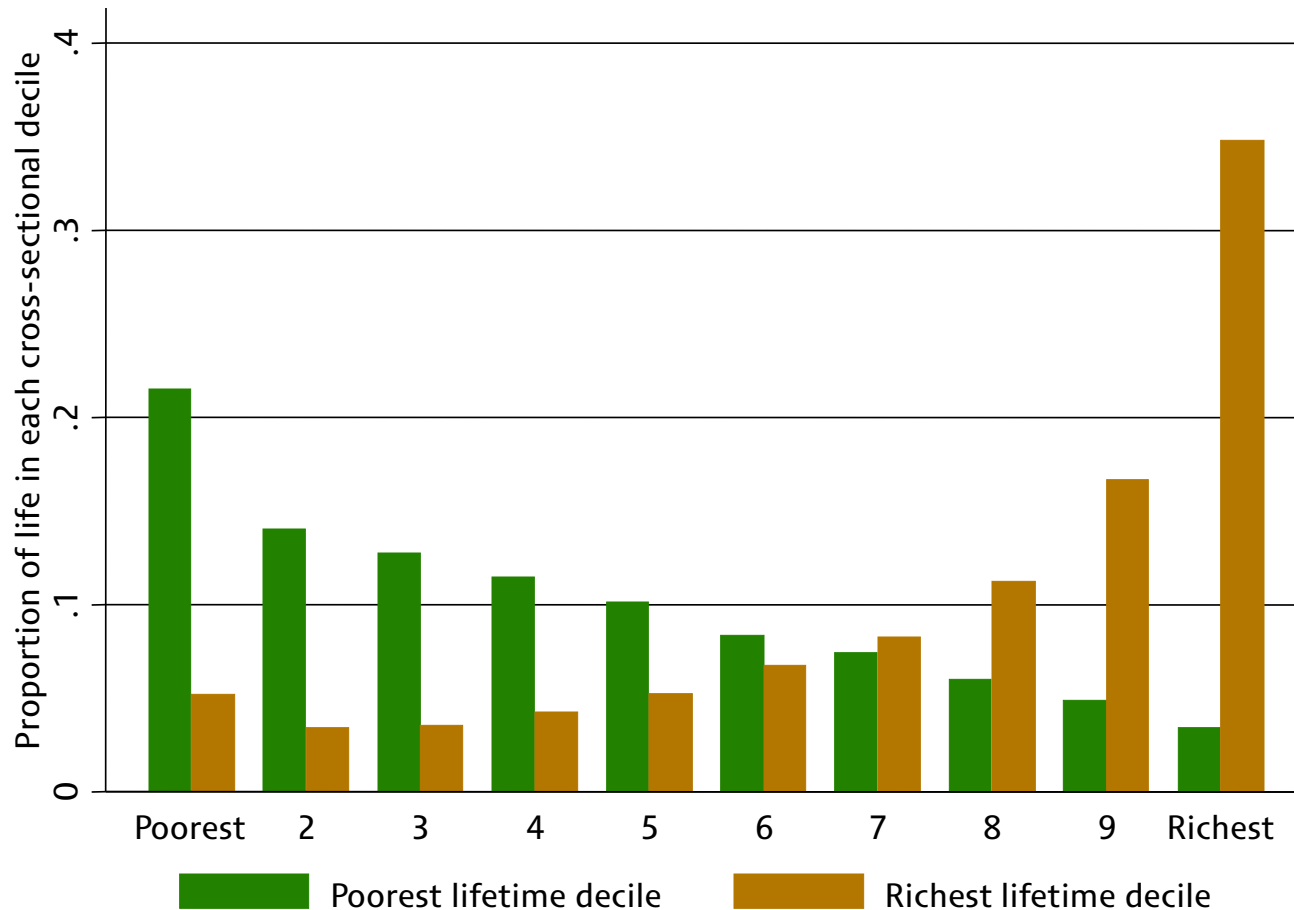
Notes: see Figure 2.8 in 'Redistribution from a Lifetime Perspective'

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

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