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EBRI Policy Forum:

The Impact and Influence of Tax Incentives on Health and Retirement Benefits

WASHINGTON—Workers routinely rank their employment-based health coverage as the most important benefit they receive, followed by a retirement plan—but the tax preferences that support them are drawing increased scrutiny.

To examine the implications for private-sector health and retirement benefits, as well the costs and consequences and what the numbers are, the nonprofit, nonpartisan Employee Benefit Research Institute (EBRI) recently held a day-long policy forum in Washington, DC. Titled "'After' Math: The Impact and Influence of Incentives on Benefit Policy," this was EBRI's 70th biannual forum on benefits issues. It drew about 100 experts, benefits professionals, and policy makers to provide their perspectives and predictions.

As a new EBRI report about the forum notes, the reach and impact of these benefits is immense. Employment-based health benefits are the most common form of health insurance in the United States, covering almost 59 percent of all nonelderly Americans in 2010 and about 69 percent of working adults. Assets in employment-based defined benefit (pension) and defined contribution (401(k)-type) plans account for more than a third of all retirement assets held in the United States, and a significant percentage of assets held today in individual retirement accounts (IRAs) originated as a rollover account from an employer-sponsored program. Workers routinely rank their employment-based health coverage as the most important benefit they receive, followed by a retirement plan.

Since private-sector health benefits alone rank as the largest single "tax expenditure" in the federal budget, various proposals have been made to either reduce or even phase out the cost of that program to the government. Both for employers that sponsor these benefits—and the workers who receive them—the implications are enormous, the EBRI report points out.

"When you look at some of the recent proposals for reform, benefit plan tax incentives are an area of total and complete volatility, and neither employers nor workers can have any certainty of what lies ahead," said Dallas Salisbury, president and CEO of EBRI.

Among the points made by industry experts and researchers on those topics, and other ways to impact and influence benefit plan outcomes at the policy forum:

- Retirement benefits are a tax *deferral* rather than an *exclusion* from income—meaning the federal government will eventually recoup the forgone revenue. This distinguishes retirement plan deferrals from other tax exclusions.

- A big difference between tax-expenditure estimates and revenue estimates for scoring tax reform is that the latter incorporates taxpayer behavior; whereas tax expenditure estimates do not.

- Ten percent or fewer of those ages 55–60 are making withdrawals from their IRA, compared with 80 percent of those 71 and older.

- On a historical basis, depending on the period measured, pre-retiree balances in defined contribution retirement plans double about every eight to nine years.

- Employer match levels seemed to have a bigger impact on older workers, but automatic enrollment seems much more significant in terms of getting younger employees to participate in retirement plans.

- Common challenges for underfunded retirement systems worldwide include the need to increase the state pension age and/or "normal" retirement age for full benefits; to promote higher labor-force participation at older ages; to encourage or require higher levels of private saving; to increase retirement coverage of employees and/or the self-employed; and to reduce savings "leakage" prior to retirement.

The full report is published in the August 2012 *EBRI Issue Brief,* "'After' Math: The Impact and Influence of Incentives on Benefit Policy." online at www.ebri.org Speaker presentations, a webcast recording of the event, and other information are online at EBRI's website at http://bit.ly/EBRIpolicyforum0512

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