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New Research From EBRI:

Articles Focus on Social Security, Tax Treatment of Benefits

WASHINGTON—The nonpartisan Employee Benefit Research Institute (EBRI) today published articles on changes in benefit distributions under various Social Security reform alternatives and taxes lost by the federal government due to preferential treatment given to some employee benefits.

Both articles appear in the April 2006 *EBRI Notes*, available at www.ebri.org.

Social Security: The article examines changes in the distribution of Old-Age and Survivors Insurance benefits (the primary Social Security program) under five reform options. The article notes that any changes in Social Security could have a dramatic effect on the percentage of elderly living below the poverty level. Each of the alternatives examined would have a different impact due to its level of cuts in benefits and the distribution of the benefit cuts: For example, the projected number of individuals with a benefit below poverty (for those born in 2002) was 9.7 percent under one alternative and 26.6 percent under a different alternative.

The percentage of beneficiaries with benefits below poverty is projected to decrease dramatically in the future due to assumed real growth in wages, which is passed along in higher benefits. "Consequently, even with benefit cuts large enough to eliminate Social Security's financial deficit, the percentage of beneficiaries below poverty is projected to decline," the article says.

Tax Expenditures and Employee Benefits: In his budget, the president is required to provide a list of "tax expenditures"—federal tax revenue foregone due to preferential provisions. This includes both tax-deferred programs (in which tax revenue ultimately will be collected) and tax-exempt programs (in which no revenue will ever be collected). These estimates from the budget include employee benefit programs offered by both public- and private-sector employers, since the tax incentive is related to the individual; the fact that they either defer or avoid the payment of taxes does not relate to the tax status of the plan sponsor.

For fiscal year 2007, all employee benefit-related tax expenditures ($313.2 billion) will account for 37.4 percent of the $837.1 billion in tax expenditures in the budget, the article says. Tax-favored employment-based health insurance benefits will account for the largest tax expenditure presented in the budget (17.5 percent of the total) followed by employment-based retirement plans (11 percent of the total).

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