Policy Levers for Changing Retiree Well Being: Tax Policy

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Basic Propositions:
Tax and Retirement Policy

• Purpose of private pension system
  – Enhance post-retirement security through saving and risk management
    • for those who have the greatest need
    • promote national saving
    • relationship to EBRI model
Money’s Worth for Taxpayers

• National saving = private saving +/- public saving (dissaving)

• Tax expenditure: $192b for ret savings (present value net of revenue from payouts)

• Target tax incentives to moderate/lower-income
  – for them, added saving = added security
  – more efficient in increasing actual saving
Replace Marginal Rate Benefits With Credits

- Central flaw: value based on tax brackets
- Most who are covered get little tax benefit
- At least half aren’t covered at all (75 M)
- EBRI model: vulnerability and income
- Tax credits
  - expand saver’s credit
  - broader approaches: matching & automatic
Managing the Risks: Investment

- Overconcentration in Employer Stock
- The Enemy is Us: Self-Directed Investment
- Solutions
  - Default mode
  - Wholesale not retail
  - Pooling
Managing the Risks: Leakage and Longevity

• It’s not about “DB-ness”
• Cardinal Virtues -- Quality of Coverage
  – Employer funding (takeup risk)
  – Limit leakage (preservation risk)
  – Professional investment (inv’t/inflation risk)
  – Cheap annuitization (longevity risk)
  – Don’t forget basic adequacy (amount)
Managing the Risks: Leakage and Longevity

- Defined benefit hybrid plans
- “Lump sum” plans
- Legislative resolution of cash balance controversy
- Automatic rollover
- Broader lump sum policy
Protect Employer Plans

• Advantages of employer pension and health plans
  – collective risk sharing
  – cross subsidies in favor of lower-income and reluctant savers and risk managers
  – pooling of cost, knowledge for economies of scale
Protect Employer Plans

- Substitution effects of individual accounts
- Incentives of decisionmaker and employees
- Contribution limits, liquidity, tax treatment, match, attitude
- LSAs/RSAs: large and leaky
- Virtues of social insurance: Social Security, Medicare
Managing the Meta-Risk: Protecting the Nation’s Capacity

• Fiscal Responsibility Protects National Capacity to Respond to Uncertain Future Needs
• Budget Deficits = Public Dissaving
  – Collective resources to manage risk
  – Social Security, Medicare, Medicaid
  – Age dependency ratio
  – Potential tax burden on future generations
The EBRI Model:
A Valuable Contribution

• Virtues
• Potential Further Uses
  – A wish list