Getting Americans to Save: Reforming Tax Incentives and an All-of-the-Above Approach

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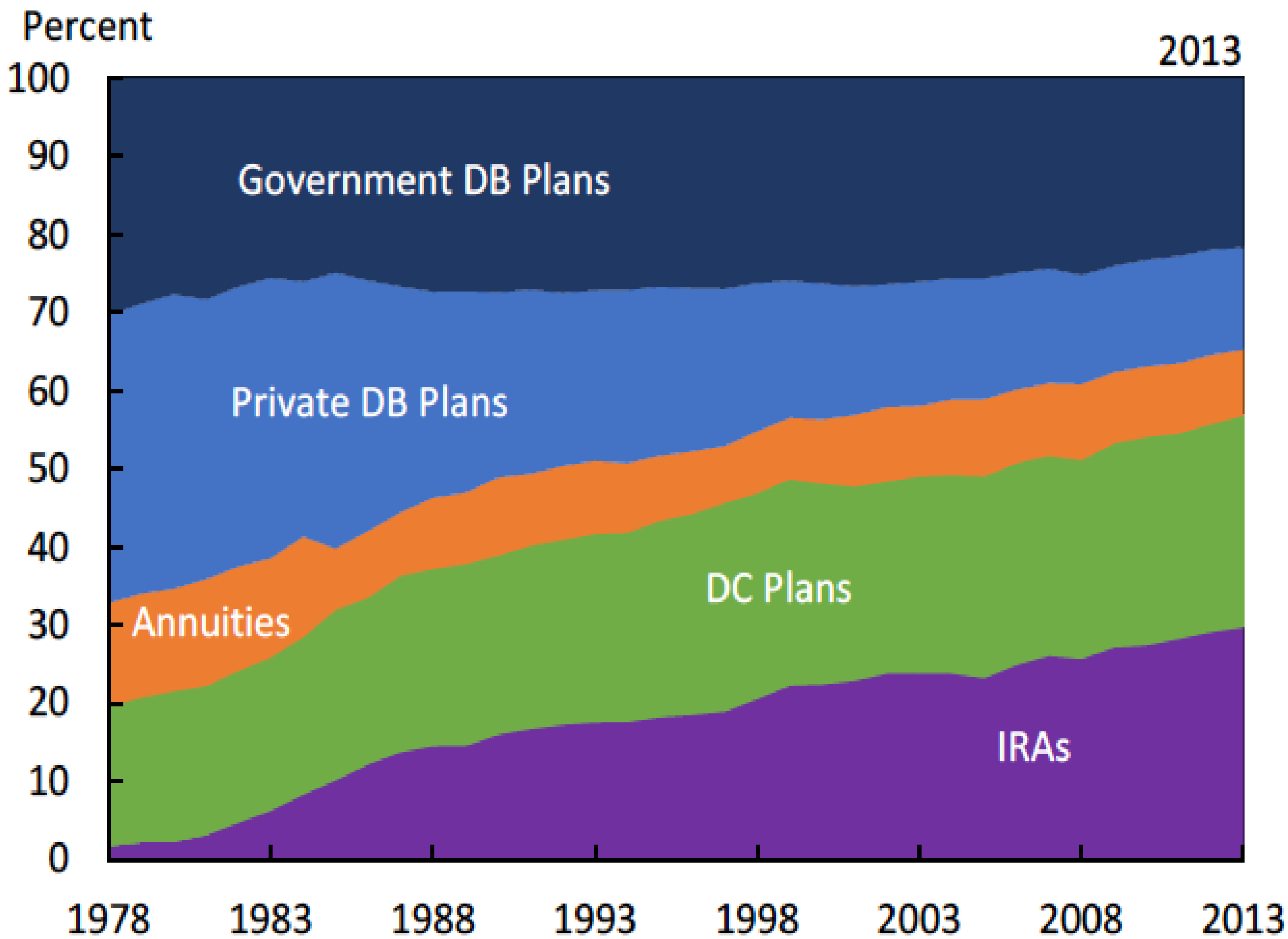
Significant Share of Americans Americans Appear to Under-Save

National Retirement Risk Index, 2013		
	Target Income Replacement Rate at Age 65	Percent Under-Saving ("At Risk")
Low Income	80%	60%
Middle Income	71%	52%
High Income	67%	43%

Source: Center for Retirement Research at Boston College, National Retirement Risk Index, 2014

Rise of Tax-Preferred Retirement Accounts

Distribution of Tax Preferred Retirement Saving by Type



Source: Council of Economic Advisers, 2015

Rise of Tax-Preferred Retirement Accounts

Tax Expenditure Cost, 2016 (Billions)	
Defined Contribution (NPV)	$72
Defined Benefit (NPV)	$31
IRAs/Roth IRAs/SEPs (NPV)	$12
Savers Credit	$1
Source: Treasury Dep't. tax expenditure estimates.	

What's the Effect of Tax-Preferred Accounts?

Survey of Research Results: Tax-Preferred Accounts and Saving		
Authors and Date	Type of Account Studied	Share of Account Contributions That Are New Private Saving
Gelber, 2011	401(k)	No evidence of crowd-out (i.e. no evidence of offsetting reduced saving in other accounts)
Chernozhukov and Hansen, 2004	401(k)	Accounts generally increase total wealth (larger effect for less sophisticated)
Benjamin, 2003	401(k)	50% (larger share for less sophisticated)
Attanasio and DeLeire, 2002	IRA	38% to 44%
Poterba, Venti, and Wise, 1995	401(k)	"[M]ost 401(k) contributions represent net new savings...."
Engen, Gale, and Scholz, 1994	401(k) and IRA	~0% for 401(k)s & no more than ~30% for IRAs
Gale and Scholz, 1994	IRA	17% to 33%
Venti & Wise		
1991	IRA	97%
1990	IRA	96%
1987	IRA	70% to 80%

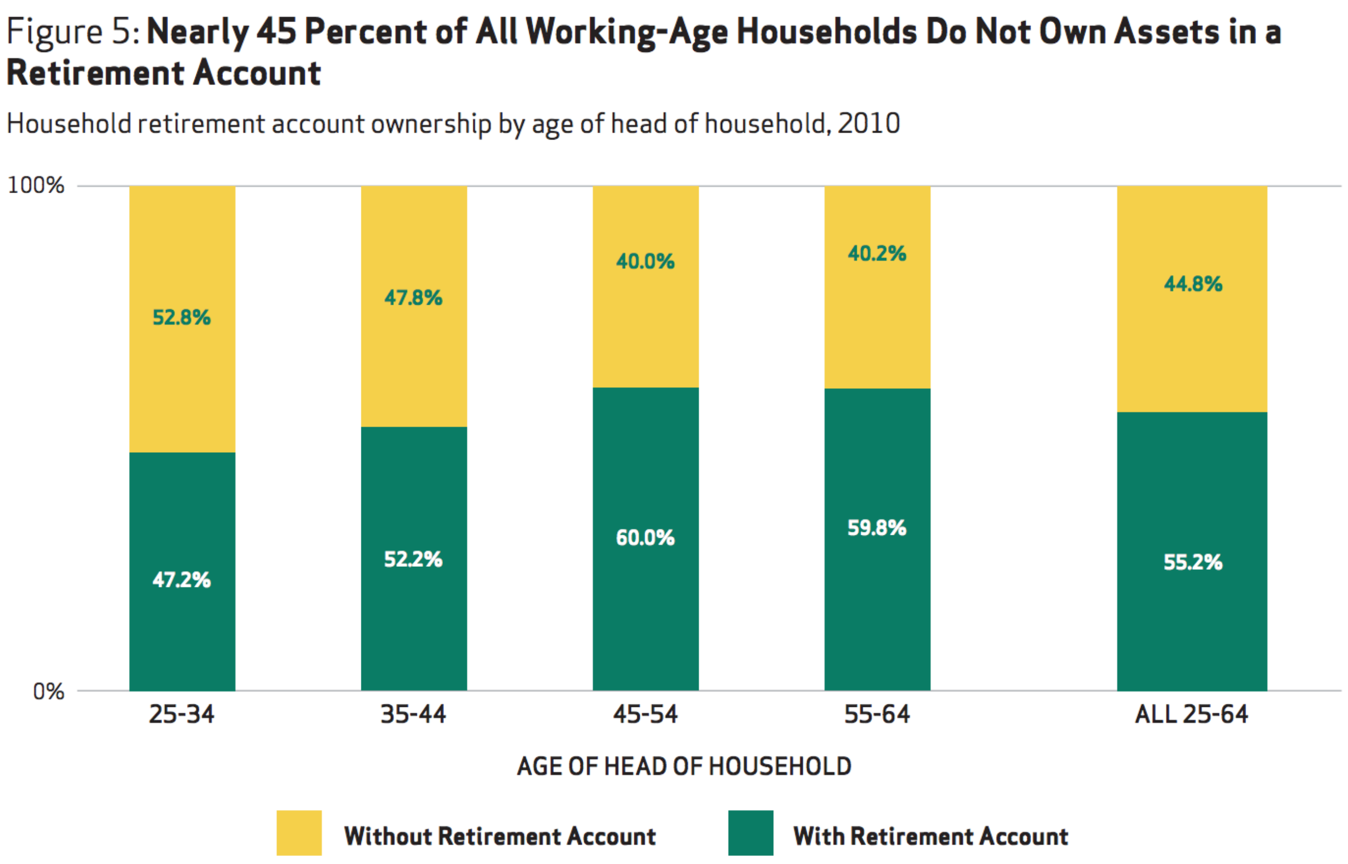
What Happens in Denmark Doesn't Stay in Denmark

Effect of New 14% Tax On Contributions to Retirement Saving Per Dollar Contributed to Accounts			
	Active Savers	Passive Savers	Population as Whole
Future Consumption	16 Cents per $	0	8 Cents Per $
Current Consumption	0	14 Cents Per $	7 Cents Per $
Author's calculations based on Chetty, Friedman, et al.			

Study looks at the effect of an incremental change in incentive over a relatively tight income range in Denmark. Doesn't directly inform effects of accounts ***overall*** *or across wider distribution.*

Lack of Access/Participation

Illustration of the problem: Significant share of population do not have <u>any</u> assets in a retirement account.



Source: Nari Rhee, National Institute on Retirement Security, 2014.

Allocation of Current Tax Benefits

Distribution of Tax Benefits for Retirement Tax Incentives (NPV, 2016)		
Expanded Cash Income Percentile	Benefit as a Percent of After-Tax Income	Share of Total Benefit
Lowest Quintile	0.1	0.5
Second Quintile	0.6	3.8
Middle Quintile	1.1	10.7
Fourth Quintile	1.6	22.5
Top Quintile	2.0	62.6
All	1.5	100.0
Addendum		
80-90	2.2	20.3
90-95	2.6	16.1
95-99	2.7	20.0
Top 1 Percent	0.7	6.2
Top 0.1 Percent	0.1	0.6
Source: Urban-Brookings Tax Policy Center, Table T16-0161		

Allocation of Current Tax Benefits *(contd.)*

Estimated Taxpayers with Individual Retirement Accounts (IRA) by Size of IRA Balance, Tax Year 2011

	Number of taxpayers			Total IRA fair market value balances (Dollars in billions)		
IRA Balance	Estimate	95% confidence interval		Estimate	95% confidence interval	
$1 million or less	42,382,192	42,094,009	42,670,375	$4,092	$4,038	$4,147
> $1 million to $2 million	502,392	470,897	533,887	674	632	717
> $2 million to $3 million	83,529	72,632	94,426	198	173	224
> $3 million to $5 million	36,171	30,811	41,531	133	114	153
> $5 million to $10 million	7,952	6,120	9,783	52	40	64
> $10 million to $25 million	791	596	985	11	8	13
> $25 million	314	115	650	81	8	225

Source: GAO analysis of IRS data. | GAO-15-16

Path Forward: An Agenda for Reform

1. Distribution. Refocusing the current tax incentives on low and middle income Americans whose saving behavior would be most sensitive to these incentives. There have been a number of proposals in this vein including enhancing or replacing the current subsidy system with refundable tax credits. Eliminating "gaming" opportunities.

2. Universality/portability. Simplifying the system by establishing universal savings accounts that are easily portable from workplace to workplace and into which all workers are defaulted.

3. Defaults. Carefully studying optimal default saving rates and using ones that are probably higher than now exist in many workplaces.

Looking beyond tax incentives: Saving floors (in form of Social Security) key aspect of system and should be strengthened. All tools—Social Security, incentives, defaults—work in concert.