

INCOME TAX INDUCEMENTS FOR PERSONAL RETIREMENT SAVING

BY ROBERT N. SCHOEPPLEIN*

The present schedule of retirement benefits under social security (OASDHI) again is being criticized as "inadequate." This has a familiar ring; the elderly experience recurring purchasing power gaps as labor force earnings and consumer prices rise. The Federal Government has four broad courses of action in upgrading the guaranteed maintenance income for the aged: (1) Increase the benefit schedule under OASDHI; (2) adopt and expand complementary public assistance programs; (3) introduce a new income transfer program, such as a negative income tax; (4) provide inducements—usually through tax incentives—to accelerate the rate of private retirement saving.

This paper¹ focuses on the issue whether income tax inducements can significantly increase the rate of personal retirement saving. A particular form of incentive has received recent attention. The basic proposal is to create a special Federal income tax deduction for current personal retirement saving (including current employer pension contributions in some variants of the proposal).² Some 6.5 million or so self-employed taxpayers presently are eligible for such a "personal pension" deduction under the individual income tax, but these self-employed represent only about 10 percent of all taxpayers under age 65.³ The Canadians have such a deduction in their national income tax, and eligibility is extended to virtually all taxpayers.⁴ These United States and Canadian programs may have been adopted with several objectives in mind, including equity considerations. If these tax-incentive schemes are to complement social security, however, the relevant performance test is the consequent increase in the rate of personal saving.

*University of Connecticut.

¹ I am indebted to Charles M. Tiebout and Gardner M. Brown, Jr., for their comments in reviewing a draft of this paper, though I am responsible for errors that may remain. The Institute for Economic Research, University of Washington, provided financial support for computer research.

² Cf. U.S. President's Committee on Corporate Pension Funds and other Private Retirement and Welfare Programs. Public Policy and Private Pension Programs, Washington, 1965. U.S. Congress, Joint Economic Committee. Hearings: "Private Pension Plans." 89th Cong., 2d sess., spring 1966.

This special income tax deduction to induce personal retirement saving should not be confused with the proposal to permit income-tax deductions of employee OASDHI contributions, discussed in U.S. Congress, House, Committee on Ways and Means, Hearings on President's proposals for revision in the social security system, 90th Cong., 1st sess., Mar. 1-3, 1967, pt. I, pp. 195-201.

³ The program is titled the "Self-Employed Individuals Tax Retirement Act of 1962" (76 Stat. 809), and frequently is cited as "H.R. 10" in trade journals. The eligibility estimate is based on U.S. Treasury "Statistics of Income, Business Tax Returns, 1962," adjusted to 1964 preliminary returns. The total represents the sum of partners in partnerships with net profit plus sole proprietors with net profit.

⁴ Registered retirement savings plan. Stat. Can. 1957, 168.c.29.