

in its plea for programs that are "equitable, efficient, coordinated, and flexible." A more thorough examination and better understanding may well reveal that present programs now have many equitable attributes, an efficient allocation of accumulated invested funds, a purpose to achieve a fair coordination with OASDI benefits, and a highly desirable range of flexibility in designing plan features. As to the alleged "morass * * * of programs" and noting that "morass" is defined in Webster's Seventh New Collegiate Dictionary as "something that traps, confuses, and impedes," it may be found that some of the traps and impediments are rooted in tax laws and regulations and that the confusion may arise, in part, from incomplete study and faulty understanding.

This paper aims to serve some of the objectives expressed by the foregoing statement of the Joint Economic Committee by identifying and examining an equitable and uniform principle of deferred income tax treatment of provisions for old-age income that facilitates lifetime income spreading for all persons as the natural method of tax treatment.

II. LIFETIME INCOME SPREADING

PRELIMINARY OBSERVATIONS

The principle of taxing personal income on an averaging basis is now found in our tax laws in a limited form. Social scientists tell us that we should expect a continuing decrease in working-life expectancy and an associated pronounced increase in the number of nonworking years of so-called old age. In view of this prospect, we need to recognize the importance of the application of the income spreading principle on a lifetime basis with particular reference to provisions for old-age income assurance. This principle may be expressed simply and briefly as tax-free input and taxable output. The writer, in 1959, described this principle as the "payout principle" in these words:

In its purest form * * * may be expressed as follows: Contributions and investment return thereon which are irrevocably devoted to the provision of retirement life income are free of income tax when made or earned but the entire retirement income is included in taxable income when received * * *. The payout principle is sound for two fundamental reasons: (i) the encouragement of savings accumulations for retirement purposes constitutes a strong force working to provide additional capital from which, in turn, may be gained the increase in productivity needed in a nation's economy to provide the desired retirement benefits; (ii) it is fair and reasonable that an individual's income should be spread and acknowledged as realized over the entire period of life and not limited to the active earnings years. It is proper that an individual pay an income tax only when income is in hand and available for living costs.

It is important to distinguish between forms of savings which a person may use freely in a manner and at a time of his choosing, and a form of savings devoted irrevocably to retirement benefits. In order to avoid objectionable and unfair