

discrimination, the payout principle should apply only to retirement program where the benefit of accumulations can be taken only as a life income after retirement or is subject to tax penalties if taken in any other form. A "locked-in" status should exist.¹

For purposes of this discussion, the underlying theme of lifetime income spreading is that, by appropriate tax treatment, all persons, through individual, group, or institutional programs, public and private, may spread the labor rewards of working years over their entire lifetime, including the nonearning years of retirement, and pay an income tax only as such income and accumulated investment returns thereon are, in fact, received. No distinction should be made as to the source of the contributions—that is, whether from the individual or his employer.

The following statements from the Joint Economic Committee print, "Old Age Income Assurance: An Outline of Issues and Alternatives," relate to this discussion:

The tax treatment accorded both retirement income and saving for retirement has the double objective of encouraging taxpayers to practice lifetime consumption averaging and of enabling aged taxpayers to maintain a higher level of consumption with a given income than they could otherwise. (P. 6.)

Categorical taxation, like categorical public assistance, is faulty in principle. (P. 31.)

At present, there is categorical application of this principle, and consequent discrimination, since it exists only with respect to employer contributions under employer-instituted pension plans and contributions made under the Self-Employed Individuals Tax Retirement Act. Three major areas require attention; namely, (1) employee contributions under employer-instituted plans, (2) retirement contributions by working individuals who are not covered by such plans and investment accumulations thereon, and (3) benefits and employee tax contributions under the OASDI system.

Although the OASDHI system is financed on a different basis than funded employer-instituted pension plans, the application of the lifetime income spreading principle to such system has validity from the viewpoint of the individual worker who contributes to the system during his working years in order to enjoy benefits during his nonworking years.

The general acceptability of this principle is demonstrated by the fact that its application is worldwide in many different economic environments. For contributory private pension plans, employee contributions are tax deductible, in full or with limits, in Canada, Belgium, France, Germany, the Netherlands, and the United Kingdom.² For national compulsory, old-age pensions, employee contributions are tax deductible and benefits are taxable in Austria, Belgium, Can-

¹ "The Payout Principle of Taxation for Retirement Income Programs Should Be Applied Without Discrimination," *Journal of the American Society of Chartered Life Underwriters*, spring, 1959, Ray M. Peterson.

² John K. Dyer, unpublished report of September 1966.