

retirement, as the rest of the population will be in time.¹⁴
[Emphasis added.]

Here is Katona's conclusion as to the effect of private pension plan coverage on individual savings behavior:

Under the conditions that prevail today, coverage by private pension plans stimulate individual saving. The notion that people tend to reduce the amounts they voluntarily save by the amounts they are compelled to save through their own and their employer's contributions to pension plans has been contradicted. So has the argument that expectation of retirement income from pension plans weakens motivation to save and induces more liberal spending.¹⁵

The determination of the extent of increased Federal revenues from this source is a project worthy of careful research. Only with this knowledge, along with an appreciation of the limited significance of theoretically calculated "tax losses" and an understanding of the practical and legal aspects, can a comprehensive and total view of the Federal income tax treatment of provisions for retirement be obtained.

IV. SUMMARY

The facilitation of lifetime income spreading by deferred taxation of contributions and investment income thereon is a natural and logical means of assuring income in old age. Such deferred taxation should be available to all persons in our society and should apply to all genuine programs of retirement income provision. Three areas require attention in order to remove undesirable discrimination and categorical taxation:

- (i) Employee contributions under employer-instituted plans;
- (ii) Contributions, and associated investment income, by persons not covered by such plans; and
- (iii) The OASDI system.

Furthermore, the deferred taxation principle should be made available to persons who have attained age 65 in order to encourage productive second careers, to facilitate the leveling out of old-age income and to afford a means of offsetting the erosion of inflation.

The present Federal income tax treatment of employer contributions and investment income for qualified pension plans, a long existing application of the principle of deferred taxation, is the natural method of treatment since—

- (i) There is no workable or equitable alternative for the vast majority of plans as they operate today;
- (ii) There are persuasive arguments that the treatment conforms to the general principles of tax law; and
- (iii) This treatment, as to the employee, has been accepted for many years, without question and without special legislation, for plans covering Government employees.

¹⁴ Phillip Cagan, "The Effect of Pension Plans on Aggregate Saving," National Bureau of Economic Research, Occasional Paper 95, 1965, p. 82.

¹⁵ George Katona, "Private Pensions and Individual Savings," Survey Research Center, Institute for Social Research, University of Michigan, 1965, p. 90.