Retirement Savings: What Can the U.S. Learn from Australia and Asia?

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U.S. Retirement Saving Incentives

• Typically employment-based
• Regressive
  – About 70 percent of the benefits go to the top quintile.
  – Incentives raise after-tax income by 1.4% for top quintile, compared to 0.7% for middle quintile and not at all for bottom quintile.
• Primary based on deferral
  – Exemption for contributions, non-taxation of inside build-up, and taxation of withdrawals.
• Not particularly effective for low- and middle-income workers.
But many Americans manage anyway

- Most Americans are decent retirement savers.
- Mean deficit is not overwhelming.

<table>
<thead>
<tr>
<th>Income Decile</th>
<th>Percentage Below Optimal Target</th>
<th>Mean Conditional Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>30.4</td>
<td>$4,084</td>
</tr>
<tr>
<td>5th</td>
<td>16.9</td>
<td>$11,482</td>
</tr>
<tr>
<td>10th</td>
<td>5.4</td>
<td>$42,557</td>
</tr>
</tbody>
</table>

Source: Scholz, Seshadri, and Khitatrakun 2006; dollars converted to 2012.
The Promise of Automatic Enrollment

- Designed to increase participation; recognizes the need to go beyond incentives.
- Benefits are spread across income groups
  - Take-up is higher amount middle-income groups
  - Benefit per participant is higher for upper-income taxpayers.
- Uses existing saving infrastructure
- Not without drawbacks: low-balance accounts, lower saving for some; maintains regressive incentives.
Active Automatic Enrollment Proposals

• PPA06 expanded access to Auto 401(k)s.
• President’s budget proposed Auto IRAs; similar Congressional proposals.
• States are taking the lead:
  – California legislated a framework for automatic enrollment, pooled contributions, guaranteed accounts.
  – Illinois legislated a framework for automatic enrollment.
Decumulation Often Overlooked

• High rates of accumulated saving does not necessarily equate to high levels of retirement security.
• Opportunities for more robust insurance:
  – Long-term care
  – Reverse mortgages
  – Annuities, especially longevity annuities
• Role for economists to help inform the debate.