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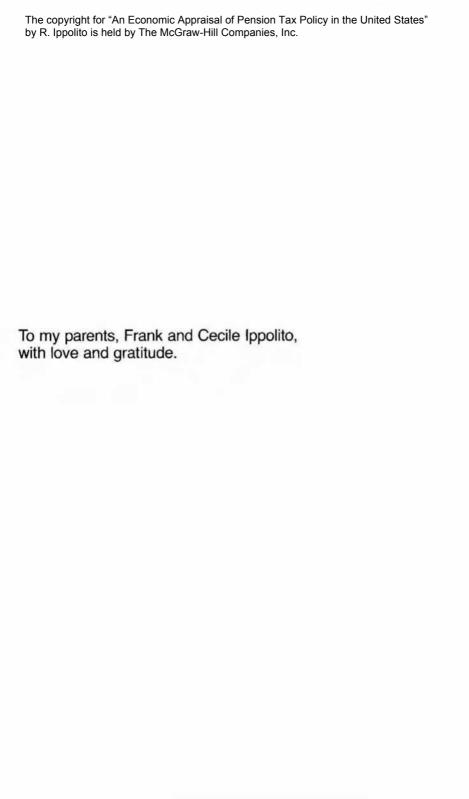
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Founded in 1952, the Pension Research Council is one of several research organizations within the Wharton School of the University of Pennsylvania. As part of the nation's first school of business, the Council functions in a bracing environment of academic freedom and objectivity. The basic purpose of the Council is to undertake research that will have the effect of strengthening those arrangements designed to provide the financial resources needed for a secure and dignified old age. It seeks to broaden public understanding of these complex arrangements through basic research into their social, economic, legal, actuarial, and financial foundations. Although geared to the long view of the pension institution, projects undertaken by the Council are always relevant to real-world concerns and frequently focus on issues under current debate.

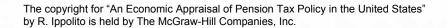
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The members of the Council are appointed by the Dean of the Wharton School and serve indeterminate terms. The Council reviews the findings of current research projects, acts to generate new research proposals, and reviews external proposals. In performing these functions, the members identify areas in which additional research is

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needed, consider the general form the research should take, then evaluate the qualifications of persons deemed capable of carrying out the approved projects.

The research projects are carried out by persons commissioned under individually designed ad hoc arrangements. The researchers are normally academic scholars, but non-academic experts with special qualifications for the tasks involved may be used. The research findings are reviewed by members of the Council, who may offer criticism as to both the substance of the report and the inferences drawn from the studies. The author of any manuscript is free to accept or reject the criticisms of the Council members, but the latter have the privilege of recording in the published document their dissent from any interpretative statements or points of view expressed by the author. Whether or not written dissents are included, publication should not be interpreted to indicate either agreement or disagreement by the Council or its individual members with the substance of the document or its inferences.



Preface

This monograph addresses the appropriate tax treatment of pensions in the United States. Except for analysis of recent changes in technical pension tax provisions, the arguments draw on the existing economics literature. The novelty of this book lies in its treatment of pensions in the tax code as part of an overall national retirement policy, including pension tax rules, pension regulations, the social security system, and individual retirement accounts. The volume evaluates these institutions against a hypothetical national retirement policy that puts the government in the role of maximizing the freedom of individuals and firms to generate the distribution of retirement ages and retirement consumption that best suits their needs.

Changes over the past 10 years in the social security system, as well as the essence of pension tax policy, conform to this hypothetical policy, likely resulting in large welfare gains for U.S. workers. A substantial portion of this volume is devoted to identifying other changes in tax policy and regulation that would more completely transform existing institutions to be consistent with the above notion of a national retirement policy. If these changes are made, labor productivity and workers' well-being could increase significantly. Yet these changes would not require the government to abandon its current policies requiring all workers to participate in some retirement income system, and transferring some monies from higher- to lower-income workers. In addition, the changes would not reduce federal tax revenue. Less pension regulation and more individual freedom can be consistent with these policy goals because important changes have occurred in the social security and tax-collection systems that make many of the original tax-related pension regulations outmoded today.

The views expressed in this volume are highly personalized. Other policy analysts, even those who might subscribe to my hypothetical national retirement policy, likely would disagree with some of the specifics of my prescriptions. Others who believe in a more interventionist government undoubtedly will have stronger disagreements with the overall thrust of my conclusions. Nevertheless, it was my hope that, by bringing together the various parts of the overall retirement system, analyzing them against a single theme, and bringing to light some of the more esoteric aspects of pension tax law, a framework would be created to help others think about optimal pension and retirement policy from perhaps a different perspective. Needless to say, the views I express do not represent the official views of the Pension Benefit Guaranty Corporation.

Richard A. Ippolito

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