

Tax Policy to Reduce Racial Retirement Wealth Inequality

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Carl Davis

Research Director, Institute on Taxation and Economic Policy
carl@itep.org • @carlpdavis

Brakeyshia Samms

Policy Analyst, Institute on Taxation and Economic Policy
brakeyshia@itep.org • @brakeyshiasamms

About ITEP

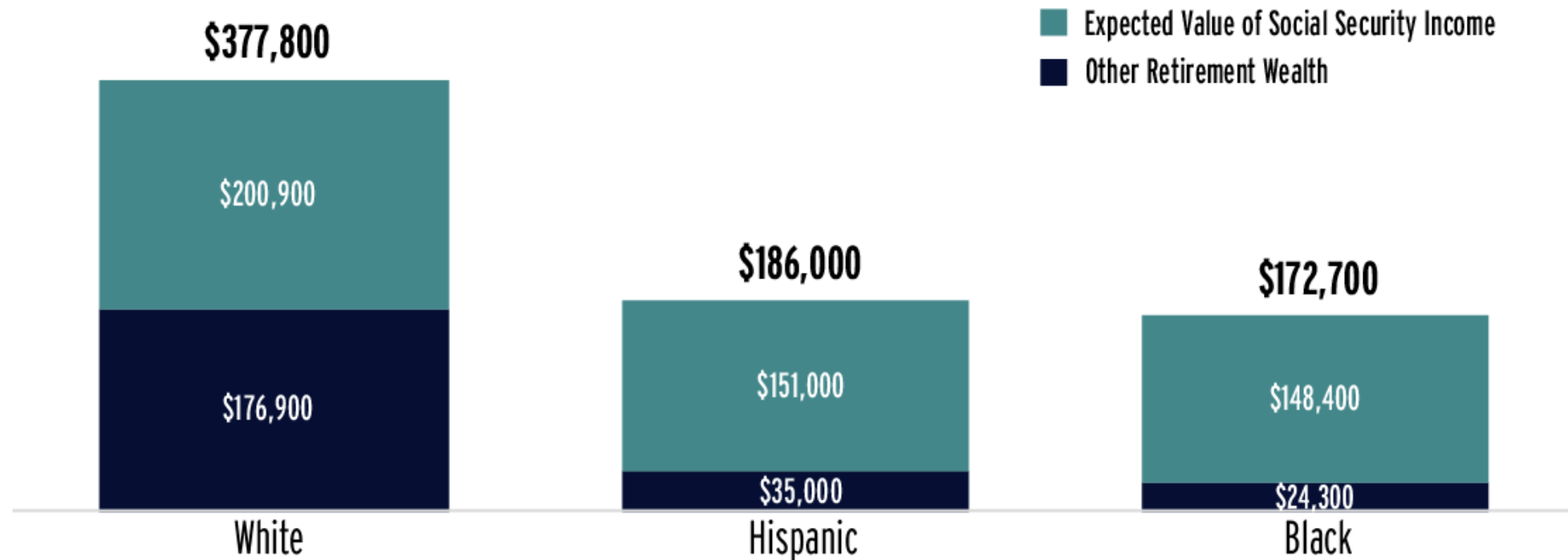
The Institute on Taxation and Economic Policy (ITEP)

- Non-profit, non-partisan research organization
- Federal, state, and local tax policy issues

Mission:

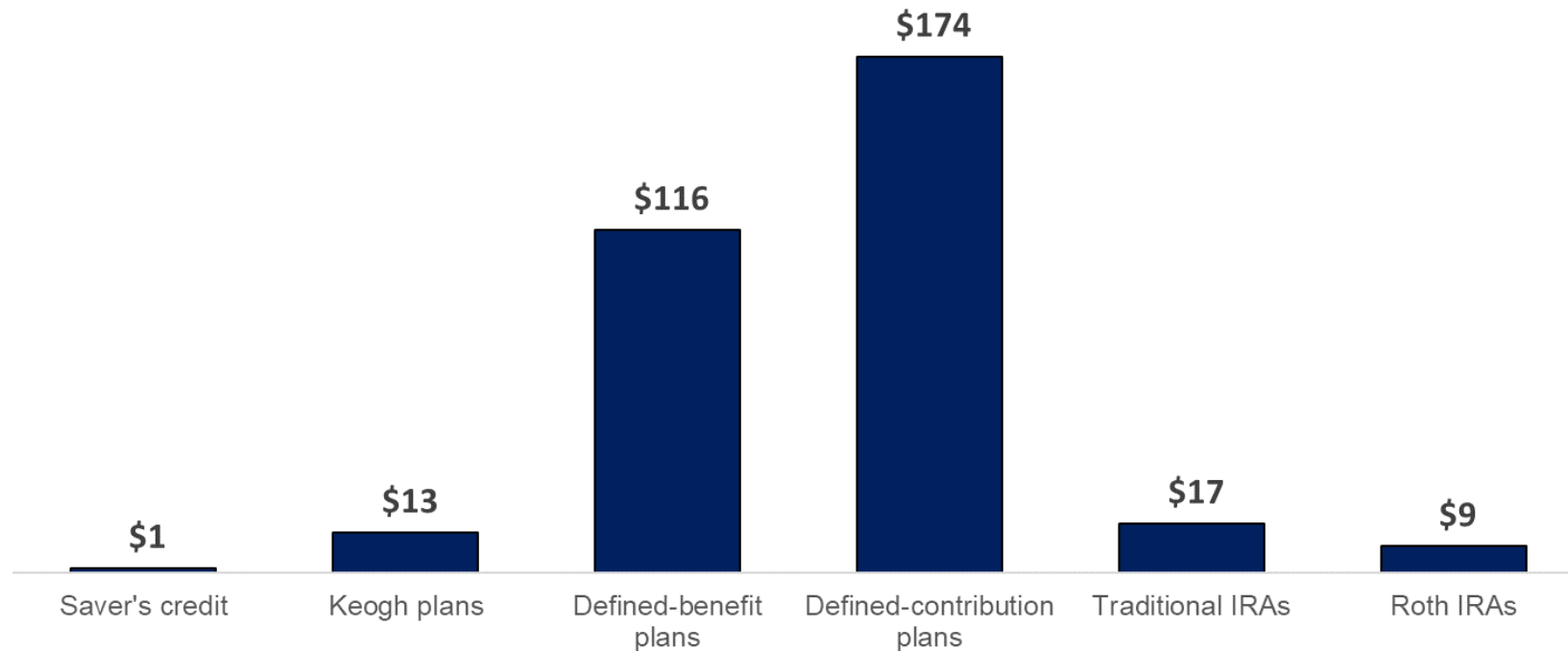
- Ensure elected officials, media, and general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies with an emphasis on tax incidence analysis.

Retirement Wealth at Ages 51-56 for Typical Household, by Race



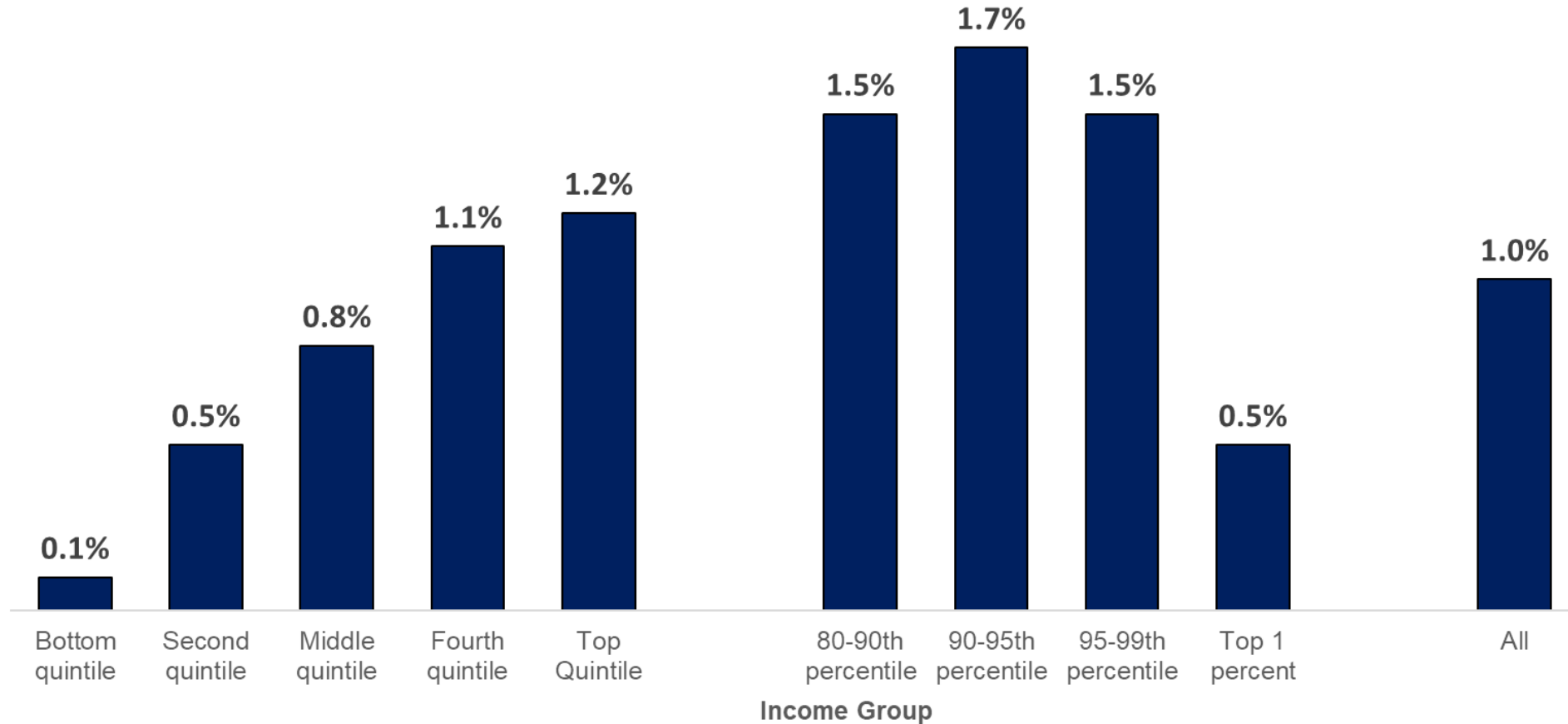
Source: Center for Retirement Research at Boston College

Federal Revenue Foregone Due to Retirement Savings Tax Subsidies (\$Billions, 2021)



Source: Joint Committee on Taxation data as compiled by the Center for American Progress (2022)

Federal Retirement Savings Tax Subsidies as a Share of After-Tax Income



Source: Urban-Brookings Tax Policy Center (2022).

Table 1. Share of Retirement Savings Tax Subsidies, by Race and Ethnicity^a, if Income Level Accurately Predicts Magnitude of Subsidy

	Share of Tax Units (%)	Share of Tax Subsidy (%)	Ratio of Subsidy Share to Tax Unit Share
Asian	5.3	7.0	1.3
White	60.6	71.7	1.2
Black	13.5	8.3	0.6
Hispanic	17.2	10.5	0.6
American Indian or Alaska Native	0.6	0.4	0.6

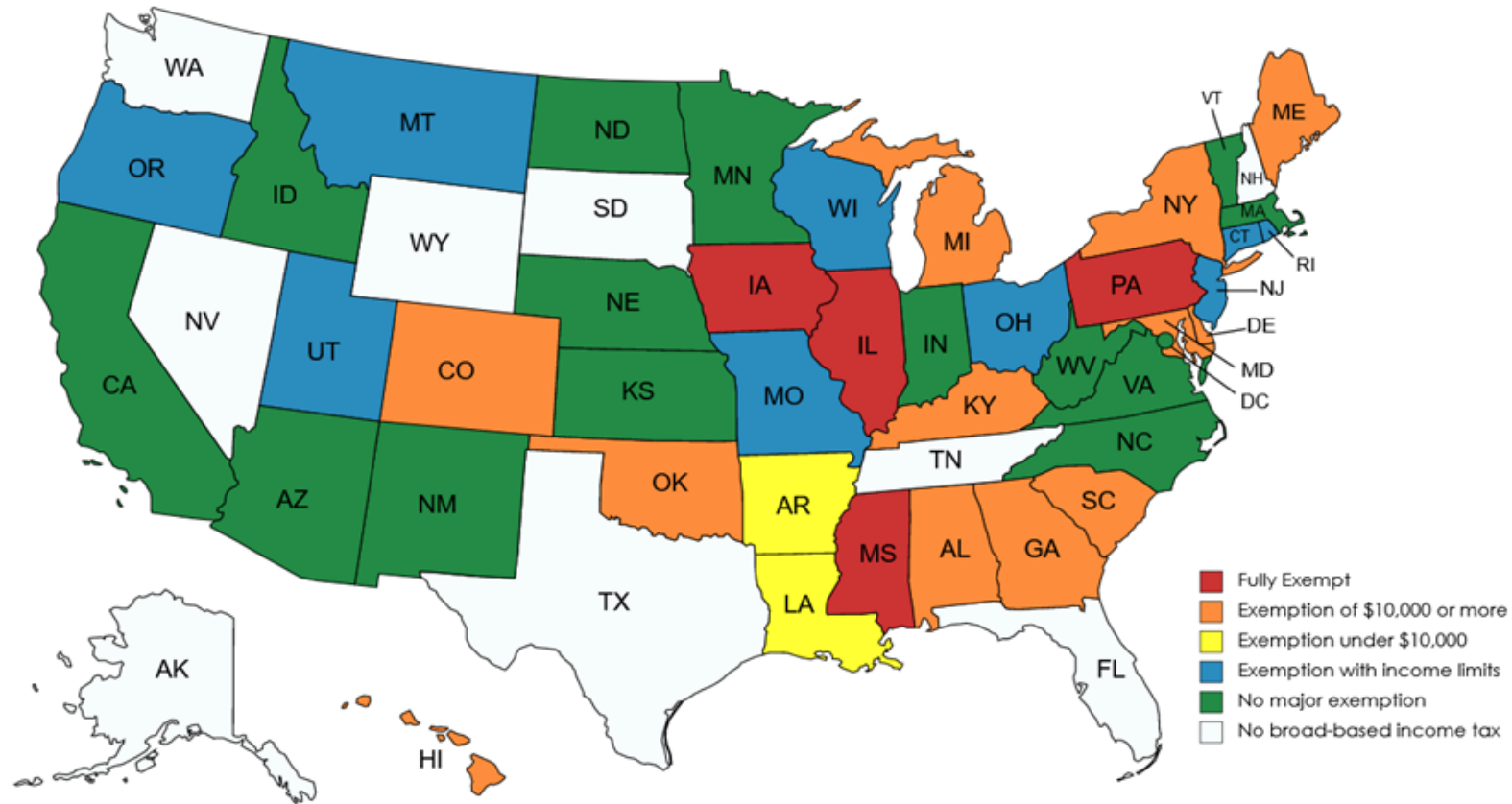
Notes:

^a Tax units are sorted into race and ethnicity groups based on the estimated race of the primary filer. The Hispanic category includes filers of all races whereas the other categories include only non-Hispanic filers.

Sources: Authors' analysis of data from the Urban-Brookings Tax Policy

Caveat: the actual ratios are almost certainly more skewed than this table shows

Taxation of Private Pension Income in the States (2023)



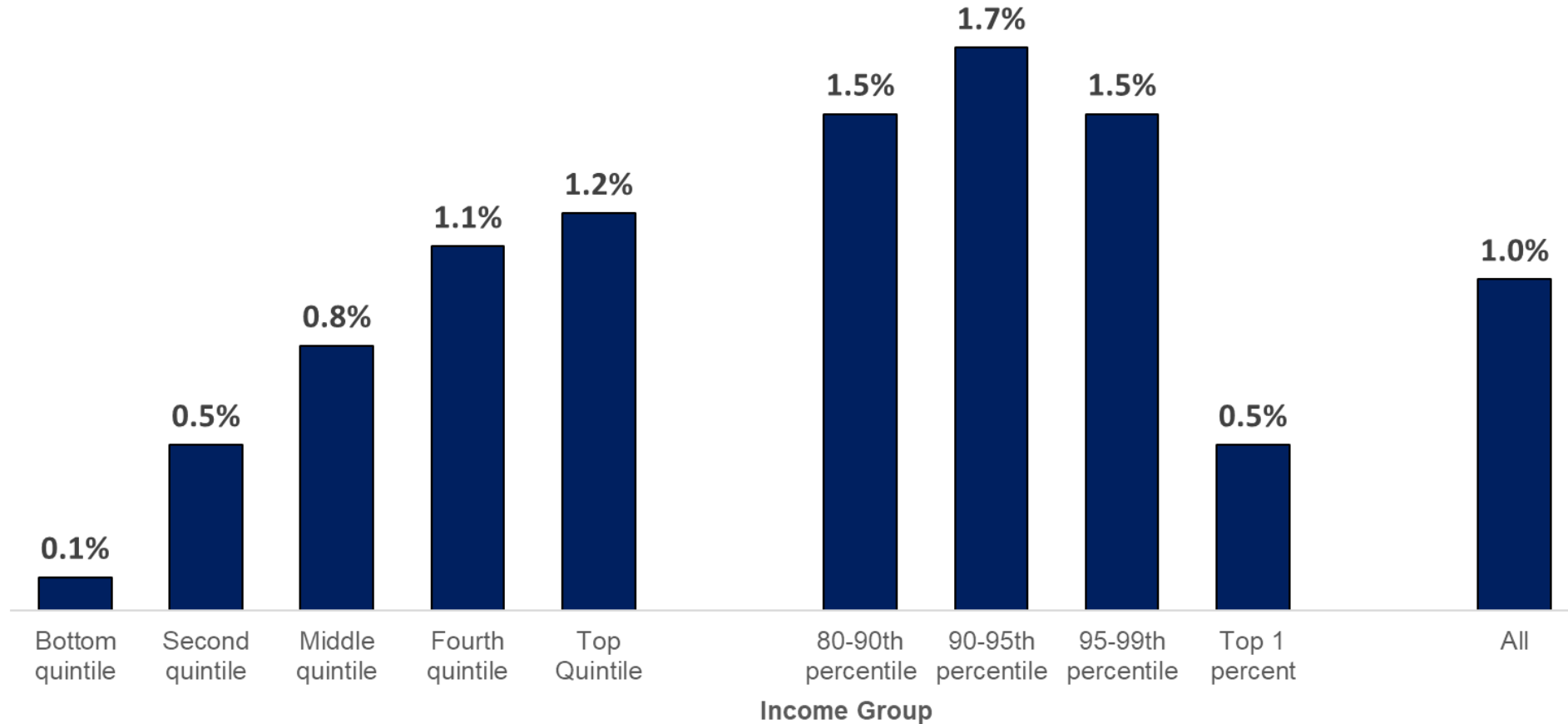
Note: Alabama fully exempts defined benefit pensions and provides a \$6,000 exemption for defined contribution plans (gradually rising to \$24,000). In Hawaii, the employer-funded portion of private pensions are tax exempt.

Source: Institute on Taxation and Economic Policy analysis of state tax forms, statutes, and agency websites. March 2023.

Guiding Principles for More Equitable Retirement Tax Policy

1. Credits are more equitable than exemptions
 - Credits = \$ of tax bill; Exemptions = \$ off taxable income
2. Income and asset limits improve the effectiveness of retirement tax subsidies
3. The tax code exists first and foremost to raise revenue
 - Not every problem can be solved with a tax break.

Federal Retirement Savings Tax Subsidies as a Share of After-Tax Income



Source: Urban-Brookings Tax Policy Center (2022).

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www.itep.org

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carl@itep.org