Tax Policy to Reduce Racial Retirement Wealth Inequality

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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

- **White**: $377,800
  - Expected Value of Social Security Income: $200,900
  - Other Retirement Wealth: $176,900
- **Hispanic**: $186,000
  - Expected Value of Social Security Income: $151,000
  - Other Retirement Wealth: $35,000
- **Black**: $172,700
  - Expected Value of Social Security Income: $148,400
  - Other Retirement Wealth: $24,300

Source: Center for Retirement Research at Boston College
Federal Revenue Foregone Due to Retirement Savings Tax Subsidies ($Billions, 2021)

- Saver's credit: $1
- Keogh plans: $13
- Defined-benefit plans: $116
- Defined-contribution plans: $174
- Traditional IRAs: $17
- Roth IRAs: $9

*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

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

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>Share of Tax Subsidy (%)</th>
<th>Share of Tax Units (%)</th>
<th>Ratio of Subsidy Share to Tax Unit Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian</td>
<td>7.0</td>
<td>5.3</td>
<td>1.3</td>
</tr>
<tr>
<td>White</td>
<td>71.7</td>
<td>60.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Black</td>
<td>8.3</td>
<td>13.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Hispanic</td>
<td>10.5</td>
<td>17.2</td>
<td>0.6</td>
</tr>
<tr>
<td>American Indian or Alaska Native</td>
<td>0.4</td>
<td>0.6</td>
<td>0.6</td>
</tr>
</tbody>
</table>

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.

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

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

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

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