Reducing Retirement Inequality

Building Wealth and Old-Age Resilience

Edited by

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and
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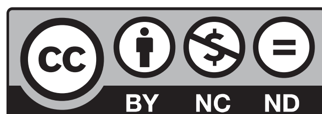

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Chapter 13

Tax Policy to Reduce Racial Retirement Wealth Inequality

Carl Davis and Brakeyshia Samms

Racial inequality, created and solidified by centuries of discrimination and exclusion, is pervasive throughout the US economy. All too often, unequal opportunities and outcomes for people of color begin early, with disparities in infant mortality, childhood poverty, and access to quality early education. During their working years, people of color are disproportionately disadvantaged by systemic barriers in employment, housing, education, and other areas. These injustices have produced a racial wealth gap between minority workers and their White counterparts that compounds by retirement age. Against this backdrop, it is no wonder that the US exhibits extremely high levels of retirement wealth inequality.

Making matters worse, US tax policy is not particularly effective in narrowing retirement wealth inequality across both racial and economic lines; indeed, in many respects, tax policy is actively worsening it. This is partly because retirement tax subsidies are heavily tilted toward wealthy people who already have the means to save for retirement. Moreover, there are limits on the degree to which tax subsidies—the basis for much of US retirement policy—can promote retirement security and narrow racial wealth inequality. In our view, the most important role for tax policy in reducing the racial wealth divide is in financing the social security program, not in subsidizing private retirement savings.

In this chapter we first summarize measures of the magnitude of racial retirement wealth inequality. Next, we highlight key principles to keep in mind when crafting more equitable tax policies to shrink the divide. Last, we examine the merits of several policy ideas aimed at reducing the gap.

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Racial Retirement Wealth Inequality

Historic and current injustices in public policy and broader society have resulted in vast disparities in income and wealth across racial/ethnic groups. While a full accounting of those issues is beyond the scope of this chapter, the discussion of racially restrictive housing covenants found elsewhere in this volume does offer an important example (Santucci 2025). Additional areas of concern include the uneven system of public education, as well as discrimination in the workplace and in lending practices (Bertrand et al. 2004; Gaddis 2015; Gillispie 2019; Perry et al. 2018). The inertia behind intergenerational wealth accumulation is also a potent force: wealth begets wealth, and lack of wealth can beget itself as well.

Racial inequality in retirement wealth is partly a byproduct of the larger racial wealth gap, and partly driven by idiosyncrasies of US retirement policy. White families are more likely to have retirement accounts through their workplaces, and they also tend to have better-funded accounts because of the higher pay earned over their careers and because they have greater non-retirement wealth to draw upon to meet other financial obligations (Bogan 2025; Brown 2021; Hou et al. 2020; Urahn et al. 2016). Kermani and Wong (2025) note that economic insecurity among Black and Hispanic homeowners results in higher rates of foreclosure, which affects housing returns and ultimately retirement security as well. Moreover, a disproportionate share of workers of color is employed in physically demanding jobs difficult to perform at older ages, forcing them to retire earlier and sacrificing both earnings and retirement savings in the process (Board of Governors of the Federal Reserve System 2020). As discussed below, tax subsidies afforded to retirement savers also add disproportionately to the fortunes of higher-income people, including a comparatively higher share of Whites.

Against this backdrop, the US social security program is a powerful equalizing force, though not quite powerful enough to completely close the racial retirement wealth gap (Catherine and Sarin 2025; Wolff 2025). Most older Americans rely on social security benefits for their primary income (Dushi et al. 2017). As seen in Figure 13.1, the typical White household approaching retirement has more than twice the retirement wealth of the typical Black or Hispanic household, when one takes into account the expected present value of social security benefits (Hou et al. 2020). Elsewhere in this volume, Dynan and Elmendorf (2025) also reveal an outsized drop in retirement preparedness among Black families in recent years, creating further reason for concern.

Given this context, tax policy can affect the racial retirement wealth gap in at least three major ways. First, it can subsidize the accumulation of private retirement wealth in tax-preferred accounts. Second, it can influence

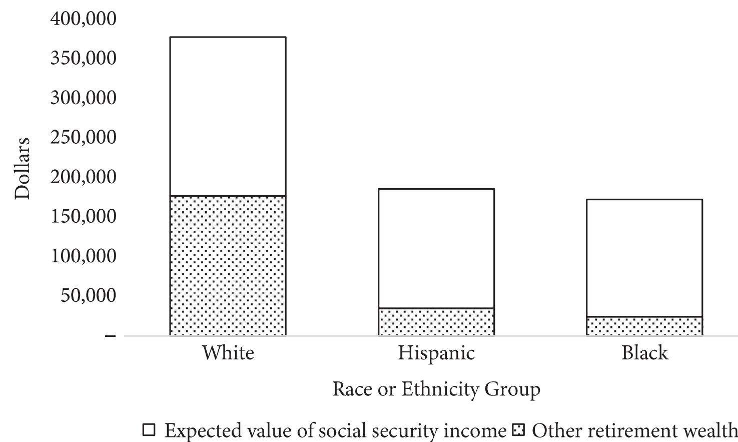

Figure 13.1 Retirement wealth at ages 51–56, for typical household, by race
Source: Authors' calculations from Hou et al. (2020), Tables 13.1 and 13.2.

retirees' costs in their retirement years, which impacts the real value of that wealth. And third, tax policy pays for programs such as social security that directly affect such inequality. This chapter touches on all three of these effects.

Principles for More Equitable Retirement Tax Policy

Retirement tax policy is a complex and multifaceted policy area, yet three guiding principles are relevant to those seeking to address racial retirement wealth inequality.

Tax credits are more equitable than exemptions

Tax credits and exemptions, despite being often conflated in the public discussion, differ in key ways. As a rule, credits offer greater parity to households in different financial circumstances.

Tax exemptions (and their closely related cousins, tax deductions and exclusions) lower individuals' taxable incomes.[1] The tax savings associated with an exemption therefore hinge on the taxpayer's marginal tax rate. Two individuals making identical retirement contributions, for instance, will see very different tax effects depending on their tax brackets. A high-income individual in the 37 percent federal tax bracket saves 37 cents in federal personal income tax per dollar contributed, since the deducted dollar will not be taxed at the 37 percent rate. Those with more modest incomes, by contrast, might see 12 cents or less per dollar contributed, depending on their

marginal tax rate. State income tax laws often compound this effect. Because high-income families are more likely to be White, the bias embedded in tax exemptions tends to worsen racial inequities.

Tax credits, by contrast, are calculated as a direct reduction in one's tax bill or, in the case of refundable credits, as a direct rebate regardless of one's tax liability. Individuals contributing to retirement accounts receive the same tax cut per dollar contributed regardless of the marginal tax rate they face.

Table 13.1 illustrates how refundable credits offer the most level playing field by providing consistent tax reductions, as a percentage of the amount contributed, regardless of income level. Exemptions provide more benefit to high-income families, less to middle-income families, and no benefit to low-income families. Nonrefundable credits offer more parity than exemptions between middle- and high-income families, but they are typically unavailable to low-income families who pay no personal income tax. In the retirement policy space, refundable tax credits are best suited to the job, as one of the most pressing issues is promoting the economic security of people with lower incomes and wealth, many of whom are people of color.

Income and asset limits improve the effectiveness of retirement tax subsidies

In our view, the central purpose of retirement tax subsidies should be bolstering the economic security of middle-class and lower-income retirees. In practice, however, the bulk of these tax benefits flows to upper-income families, including many extremely wealthy households who use retirement

Table 13.1 Illustration of federal personal income tax cut as a percent of amount contributed to retirement plans under various tax subsidy designs of similar overall scale[a]

	Low-Income Family	Middle-Income Family	High-Income Family
Refundable credit	21.3	21.3	21.3
Nonrefundable credit	0	23.1	23.1
Exemption	0	12	37

Note: [a] Refundable and nonrefundable credit percentages are informed by Toder et al.'s (2020) calculations of the revenue neutral credit levels that could be facilitated by repeal of the exemption for contributions to DC plans and IRAs.
Source: Authors' analysis.

accounts as lucrative tax shelters for themselves and their heirs. Scholars concerned with the impact of retirement subsidies on racial equity have decried these problems for decades (Moran and Whitford 1996). By contrast, well-designed retirement tax policy considers the individual circumstances most pertinent to retirement security, such as income, age, and wealth. Federal and state policymakers have a long list of options for refocusing a broad range of retirement tax subsidies toward families of more modest means, such as contribution limits, income limits, and maximum balance limits.

More judicious use of these policy levers could directly counteract racial retirement wealth inequality, by lessening the extent to which families with very high wealth, most of whom are White, can benefit from retirement tax subsidies, and by reorienting the benefits of these policies toward those most in need of aid. Reducing tax subsidies for higher-wealth families can also open other avenues for addressing inequality, since more revenue collected could be put toward productive measures to enhance opportunity and economic security.

The tax code exists first and foremost to raise revenue

Congress and state legislatures have gone to great lengths to privilege retirement savings held in tax-preferred accounts over the years. One of the most significant downsides of such policies is their substantial opportunity cost. Every dollar of tax not collected due to these subsidies could be a dollar unavailable for other initiatives that could bolster retirement security or otherwise improve quality of life for retirees. It is therefore important that retirement tax subsidies, as well as the taxes used to finance social security and other programs of importance to retirees, be designed efficiently and effectively.

Specific Retirement Tax Policies

Next we explore how those principles can inform debates over the structure of tax subsidies tied to tax-preferred accounts, rules governing the size and scope of those accounts, the tax treatment of retirement income streams during retirement, the taxation of real estate property, and equitable and sustainable financing of social security.

Tax subsidies for retirement accounts

The most fundamental feature of federal and state tax subsidies in the retirement arena is the exemption for qualifying contributions or earnings in various types of retirement plans. As seen in Figure 13.2, these subsidies collectively amount to an annual revenue drain of more than $400 billion

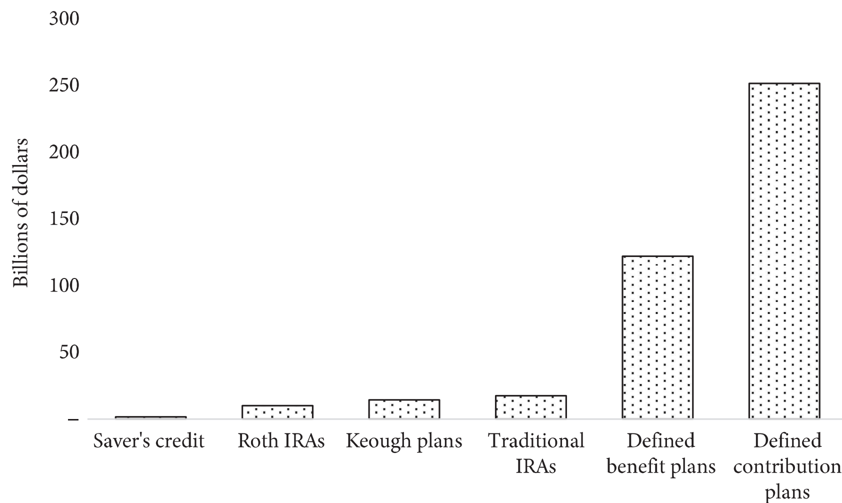

Figure 13.2 Federal income and payroll tax revenue foregone due to retirement savings tax subsidies, fiscal year 2024

Source: Authors' calculations from Joint Committee on Taxation (2022).

per year at the federal level.[2] Billions of dollars more are foregone at the state and local levels, where income tax laws usually piggyback on federal rules governing these subsidies. This practice has embedded regressivity and racial inequity at the core of US retirement savings tax policy, as lower-income households, a disproportionate share of whom are people of color, tend to receive far smaller benefits from retirement tax laws than do others.

Tax subsidies for deposits into tax-preferred retirement savings accounts or returns generated within those accounts tend toward regressivity, because high-income and high-wealth individuals, with the financial resources to meet their current, non-retirement needs with money left over, are more likely to set aside significant amounts for retirement. The subsidy is most apparent with Roth accounts, in which contributions are made with after-tax dollars but investment gains are entirely tax-free. Austin (2016) argues that, in principle, traditional accounts provide an equivalent level of subsidy for the taxpayer by pairing an upfront exemption of contributions with deferral of tax on gains. But as Burman et. al (2019: 18) explain, 'even when Roth and traditional IRAs would be identical from the perspective of the investor . . . they are not equivalent from the perspective of the federal government.' They conclude that Roth accounts tend to be costlier to government than traditional accounts, but that both represent substantial tax subsidies.

As shown in Figure 13.3, the current system of federal tax subsidies for retirement savings expressed as a percentage of income is most beneficial to families in the 90–95th percentiles, a group with incomes ranging from $276,100–$398,100 per year (Urban-Brookings Tax Policy Center 2022b). These figures represent the net present value of retirement income associated with contributions to qualified plans: that is, the present value of that income compared to its present value if the contributions had been made outside of qualified plans. Alternative approaches to measuring the incidence of these provisions, including that employed by Congress's Joint Committee on Taxation, suggest an even more regressive distribution across the income scale (Toder et al. 2020). Regardless of the measurement approach chosen, retirement savings tax subsidies as they stand today are widening the gap between upper-income taxpayers and everyone else.

Yet this still does not tell the full story, since upper-income families receive a large share of the nation's income and hence receive an even more outsized share of the tax cuts associated with retirement saving tax subsidies. Households with incomes over $1 million per year, for instance, account for just 0.6 percent of US households, and yet they receive ten times that amount—or 6.3 percent—of the total tax savings from these subsidies. More than half (57 percent) of the tax cuts associated with these subsidies flow to the 12.6 percent of families with incomes above $200,000 per year (Urban-Brookings Tax Policy Center 2022a).

It has been nearly 30 years since Moran and Whitford (1996: 790) pointed out that 'the evidence of racial skewing of the tax benefits of 401(k) plans is strong, even after controlling for relevant worker characteristics.' That finding still holds true today. To illustrate the potential racial distribution of retirement savings tax incentives, we combine Urban-Brookings Tax Policy Center (2022b) data with information from our proprietary microsimulation tax model, to illustrate how these tax subsidies would be distributed across race groups if income were an accurate predictor of the subsidy that households of different races receive from these policies.[3] Our findings in Table 13.2 indicate that White and Asian households likely receive a share of overall federal retirement savings tax subsidies that exceeds their share of the population. In contrast, Black, Hispanic, and American Indian and Alaska Native households are predicted to receive an undersized share relative to the size of their populations.

This analysis provides only a rough estimate of the racial inequity embedded in retirement tax subsidies by accounting for income differences by race and ethnicity. Since it does not take into consideration other ways in which the circumstances of racial and ethnic groups vary, it may understate the share of benefits flowing to White households. This is because White households tend to have significantly greater retirement savings, relative to

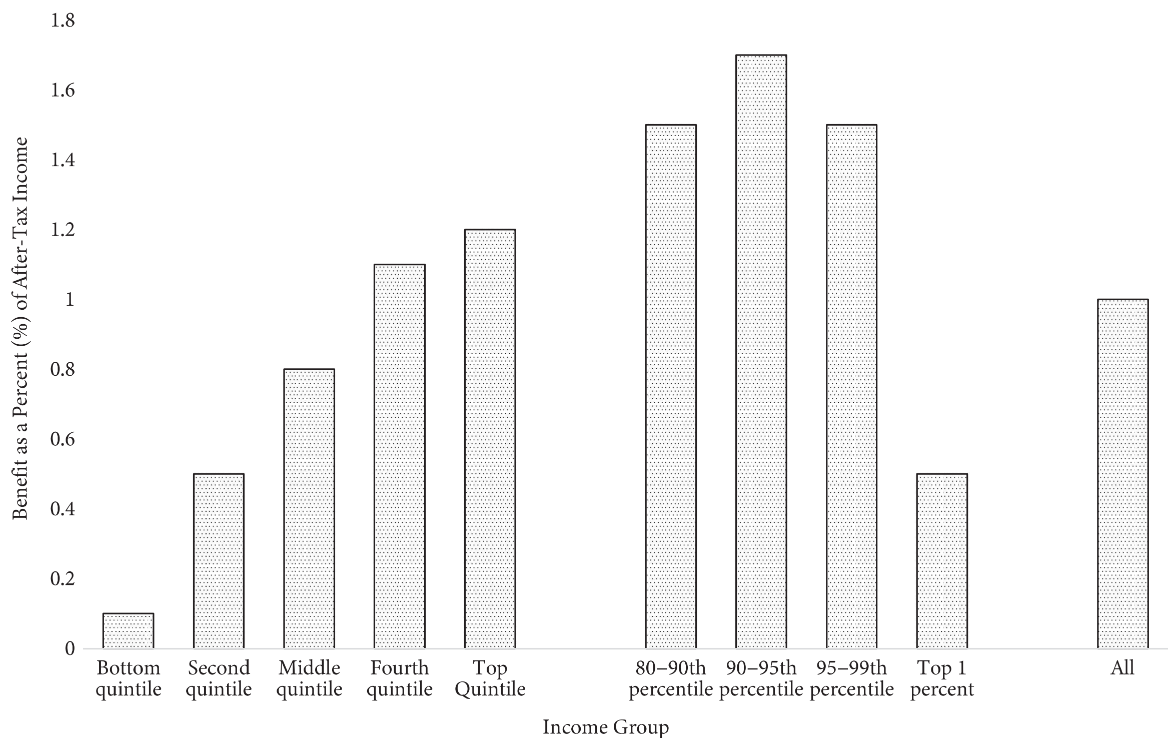

Figure 13.3 Distribution of retirement savings tax subsidies, by income group, in calendar year 2022 using present value approach

Source: Authors' calculations from Urban-Brookings Tax Policy Center (2022b).

TABLE 13.2 Share of retirement savings tax subsidies, by race and ethnicity, if income level accurately predicts magnitude of subsidy[a]

	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

Note: [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.
Source: Authors' analysis of data from the Urban-Brookings Tax Policy Center (2022b) and the ITEP Microsimulation Tax Model.

income, than do households of color when controlling for age of the householder (Rhee 2013). Put another way, racial gaps in the forms of wealth advantaged by retirement savings tax subsidies are larger than are the racial gaps in income (Catherine and Sarin 2025). While there are numerous potential drivers of this outcome, perhaps the most significant is the lower overall level of wealth (even beyond wealth held in retirement accounts) held by people of color (Brown 2021). Black households with incomes that might appear high enough to allow them to save for retirement are much more likely to devote some of their earnings to supporting extended family members lacking a meaningful financial cushion (Meschede et al. 2017). Similarly, Black households are much less likely to receive inheritances than are White households, meaning that they have lower wealth levels to draw down for other expense, so they must divert more of their earnings to those other expenses rather than toward retirement savings (Thomas et al. 2014).

Official statistics on the racial and ethnic distribution of retirement savings tax subsidies are not available, but a recent analysis of the tax subsidy for employer contributions for health insurance suggests that our analysis understates the racial skew in retirement savings tax subsidies (Cronin et al. 2023). That study implied ratios of tax subsidies to population very similar to those presented in Table 13.2.[4] Additionally, it is reasonable to expect that retirement savings tax subsidies are more even skewed in favor of White households than are employer medical care benefits, because employer-paid medical care benefits do not involve the interactions with the racial wealth gap associated with setting aside money for retirement savings.

The exemption-centric nature of retirement savings tax subsidies as they exist today is needlessly worsening racial retirement wealth inequality. The

most powerful tax option for addressing this inequity would be a sharp move away from tax subsidies as a primary vehicle for bolstering retirement security, toward a greater emphasis on raising sufficient tax revenue to maintain and bolster social security. Elsewhere in this volume, Catherine and Sarin (2025) find that closing the social security funding gap with benefit cuts alone would worsen racial inequality by reducing overall wealth by 10 percent for Black families, 13 percent for Hispanic families, and 5 percent for White families. Avoiding the cuts will require higher tax collection, which would be a positive development for racial equity.

Restructuring retirement savings tax subsidies as refundable credits rather than exemptions or exclusions also holds some promise. The recently reformed Retirement Savings Contributions Credit, also known as the Saver's Credit, offers a template for this kind of transition. Originally enacted in 2001, the Saver's Credit provides low- and moderate-income workers with a credit for investing some of their earnings in designated retirement accounts. Currently, the maximum credit is $1,000 for single filers and $2,000 for married filers (Internal Revenue Service 2022). Throughout the history of the program, participation has been low and only a small amount of credits have been claimed, compared to the maximum amount allowed. In 2002, the first year of the program, 4.1 percent of tax returns claimed the credit and the average credit amount was only $199 (Congressional Research Service 2022). Use of the credit has not meaningfully increased since then: in 2019, only 6.1 percent of taxpayers claimed it, with an average credit of $191.

The Saver's Credit has been little used because its design is out of step with the financial realities of those whom it is intended to benefit (Brown and John 2017). Most critically, the credit has historically been nonrefundable, meaning that it is only available to the extent that it does not exceed one's federal personal income tax bill. In practice, this means the credit is unavailable to low- and moderate- income families who do not pay federal personal income tax (but who do pay substantial amounts of other taxes), and it is only partially available to families with modest tax bills. Furthermore, the credit matches a varying percentage of taxpayers' contributions (50 percent, 20 percent, or 10 percent), depending on their incomes and filing status. The sharp drops in match rates create 'cliff' effects, wherein a small income increase can trigger a drastic decline in the amount of credit for which the taxpayer is eligible. Because Black and Hispanic workers' incomes are more volatile than White workers', people of color who save for retirement face more variability and unpredictability in their eligibility and credit amounts (Schneider and Harknett 2017).

The SECURE Act 2.0, signed into law by President Joe Biden in December 2022, did include some notable improvements to the credit. Even so, it remains modest relative to the nation's overall system of retirement savings

tax subsidies, and the SECURE 2.0 reforms to the credit are not scheduled to take effect until 2027. Table 13.3 summarizes some of the upcoming changes to the credit.

Most significantly, the new, improved, and renamed Saver's Match will become refundable starting in Tax Year 2027, meaning that low-income individuals—who tend to have the lowest levels of retirement wealth—will finally be eligible to benefit from the program in full. Moreover, administration of the credit will be converted into an automatic match, where the government will deposit up to $1,000 into savers' retirement accounts, anticipating that this will increase the visibility of the subsidy and encourage greater retirement savings. The new law also does away with variable matching rates and their steep cliff effects in favor of a single, more gradual phaseout for individuals with incomes above the thresholds set for full eligibility. The law also seeks to improve access to program benefits for low- and moderate-income workers, by investing greater resources in raising awareness of the policy. This is intended to address low awareness among employers and workers with modest household incomes, those without college degrees, women, and part-time employees (Collinson 2022).

To reduce the fiscal cost of these changes, the new law also reduces the maximum income level at which people can benefit from this provision. As yet one cannot predict the precise size of this reduction because the new income levels (in Table 13.3) will not take effect until Tax Year 2027. The income limits that would have been in place that year in the absence of the SECURE 2.0 Act will depend on the rate of inflation between now and 2027.

Table 13.3 Revisions to the Saver's Credit under SECURE 2.0 Act of 2022

	Pre Secure 2.0 Act	**Post Secure 2.0 Act**[a]
Default payment method	Tax credit	Matching Contribution
Credit percentage	50%, 20%, or 10%, depending on income	50%, gradually phasing out as income rises
Maximum credit amount	$1,000 per individual	$1,000 per individual
Refundability	Nonrefundable	Refundable
Income limits for full/partial credit:[b]		
Single	$24,150/$40,525	$20,500/$35,500
Head of household	$36,225/$60,775	$30,750/$53,250
Married filing joint	$48,300/$81,050	$41,000/$71,000

Notes: [a] Effective Tax Year 2027. [b] Income levels for Tax Year 2027. Because these levels are indexed to inflation, estimated TY2027 levels for the credit as it existed prior to the Secure 2.0 Act were calculated by the authors using Congressional Budget Office inflation projections. Post Secure 2.0 levels are taken directly from the legislation.
Source: Internal Revenue Service (2022) and authors' analysis of P.L. 117–328.

If inflation grows at the pace projected by the Congressional Budget Office, the legislation's effect will have been to cut the income eligibility ceiling for the full credit by approximately 15 percent, and for the partial credit by about 12 percent. Married couples with incomes up to $71,000 in 2027, for instance, will be eligible for some amount of match, whereas couples with incomes up to $81,050 would have been eligible under prior law. Even so, instituting full refundability for this provision should dramatically increase the overall size of the eligible population, as a large share of families with incomes low enough to qualify for the current Saver's Credit lack the federal personal income tax liability needed to make use of a nonrefundable credit.

Limitations on tax-preferred accounts

Tax subsidies for retirement were initially designed to encourage retirement savings by families who could not easily save without such a subsidy. Yet the tax savings associated with such accounts are used extensively by wealthy families and their lawyers and accountants, resulting in greater retirement inequality. For instance, in 2019, 28,615 taxpayers held Individual Retirement Accounts (IRAs) with balances in excess of $5 million (Barthold 2021). Altogether, those accounts had a combined balance of more than $160 billion. Within that group, nearly 500 of those taxpayers held accounts with more than $25 million in assets, and the average account size for those 500 taxpayers exceeded $154 million. IRS data obtained by ProPublica revealed even larger fortunes held by some of the nation's most affluent families, such as a $5 billion Roth IRA owned by PayPal founder Peter Thiel (Elliott et al. 2021). For Thiel, the federal tax subsidy provided to Roth IRAs is likely to result in more than $1 billion in tax savings (Mitchell 2022). Evidently, the use of tax-preferred accounts by wealthy people has resulted in worsening economic and racial wealth inequality. Ninety-two percent of the total wealth held by families with net worth over $30 million is owned by White, non-Hispanic families, though few families of any race have that level of wealth (Davis et al. 2022).

One way to curb runaway growth in tax-subsidized retirement accounts would be to create a cross-plan cap that prevents taxpayers from making additional contributions once retirement savings exceed a certain size. Such a reform was advanced under President Barack Obama's administration to prevent accumulations 'considerably in excess of amounts needed to fund reasonable levels of consumption in retirement and are well beyond the level of accumulation that justifies tax-advantaged treatment of retirement savings accounts' (Department of the Treasury 2016: 167). President Joe Biden's administration has proposed a similar reform, as well as a plan to curtail 'backdoor' options permitting high-income people to contribute to Roth IRAs (Department of the Treasury 2023). Another noteworthy reform

of relevance to curbing racial retirement wealth inequality would be to prohibit IRA 'stuffing' strategies, where undervalued non-publicly traded assets are deposited into Roth accounts, to later enjoy explosive tax-free growth (Hemel and Rosenthal 2021).

Tax preferences for retirement income streams

Most US states use the federal definition of adjusted gross income or taxable income as the starting point for their own tax systems, which means that they inherit most of the retirement tax subsidies embedded in federal law and then add some of their own on top (Federation of Tax Administrators 2022). One of the more active areas of tax policy change at the state level in recent years has been the carving out of more favorable treatment for retirement income (Davis and Byerly-Duke 2023). Nevertheless, most of these recent changes have run afoul of the guiding principles advanced above.

Federal law already exempts social security benefits from income tax for low-income families, and it exempts a sizeable share of this income for moderate-income families as well, making it a reasonably well-targeted policy.[5] As shown in the Appendix, every state levying a personal income tax also taxes social security less heavily than does the federal government, and 32 of the 41 states with personal income taxes offer a blanket exemption for all social security income. Such untargeted exemptions for social security income disproportionately benefit seniors with higher incomes, relative to the targeted federal tax subsidy. A large majority of states also offers tax subsidies for pension or IRA income that go beyond the federal subsidies (see the Appendix). These come with a broad range of conditions including age limits, maximum exemption caps, and limitations to certain professions such as members of the military or fire departments. Very few of these take the form of credits, and income limitations are relatively rare as well.

As the US population ages, the cost of carving out pension and IRA income from state tax bases has grown substantially, and it will grow even more in the future. Moreover, given that the elderly population is disproportionately White and projected to remain so for the medium term, comparatively little of the tax subsidies are distributed to retirees of color (Davis et al. 2021). Most of these subsidies—and especially the most generous ones in Illinois, Iowa, and Mississippi—pile on to historic and ongoing racial inequities by affording larger average tax cuts to White retirees who earned higher pay throughout their careers, and therefore receive larger retiree pensions. Moreover, the long-run value of these subsidies depends on the longevity of the taxpayer, and the reality is that disparities in economic and environmental conditions have resulted in markedly lower life expectancies for Black Americans in particular (Perry et al. 2021).

Revamping poorly targeted retirement income tax subsidies to limit access by retirees with significant financial resources could directly reduce after-tax inequality among retirees, and also this would generate meaningful revenue to put toward other public initiatives.

Property taxes

Taxes on real estate, including homes, are a crucial source of revenue for K-12 schools and other local services in the US. Too often, however, the structure of these taxes is disconnected from peoples' ability to pay. This disconnect can be especially problematic for retirees living on incomes that are relatively modest, compared to their homes' values. The plight of seniors with low incomes or little in the way of liquid net worth has been used as justification for many property tax caps and limitations across the states. Yet these caps often drastically curtail local revenue collections and, when tied to how long residents have lived in their homes, create large inequities in property tax liability even between neighbors.

Circuit breaker tax credits offer a far better targeted approach (Bowman et al. 2009). The most effective of these provides a refundable tax credit or rebate that offsets property taxes exceeding a statutorily defined percentage of income. Limits on the income amounts and home values needed to qualify hold down the cost of these programs, while targeting them to seniors with lower wealth. Including renters in these programs, who also pay a portion of their home's property tax bills indirectly through their rent, could be especially important for racial equity, as Black, Hispanic, and Asian seniors are less likely than White seniors to own their homes (Choi et al. 2019). Tax policies tailored toward renters are among the most effective means of reaching lower-wealth households without having to explicitly measure families' total net worth, as being a renter is a strong indicator of lower household wealth. This makes such programs especially appealing options for reducing racial wealth disparities. Between 2015 and 2019, just 17 percent of White families were renters with a below-median income, while 30 percent of American Indian, 34 percent of Hispanic, 34 percent of Native Hawaiian, and 44 percent of Black families fell into this group (Davis et al. 2021).

Equitable and sustainable social security tax revenue

While improving the design of retirement tax subsidies can help to reduce racial retirement wealth inequality, raising tax revenue to maintain and expand social security in an equitable and sustainable fashion is even more crucial. The social security system has been the most powerful lever available for narrowing racial retirement inequality in the past (Johnson 2020a). In fact, Catherine and Sarin (2025) find that social security wealth comprises almost 60 percent of total wealth held by the bottom 90 percent of the wealth distribution, and they also conclude that social security has narrowed the

racial wealth gap over the last 30 years. In 2016, the expected present value of social security benefits represented 53 percent of retirement wealth for middle quintile White families nearing retirement, versus 81 percent for Hispanic families and 86 percent for Black families (Hou et al. 2020). Given the significance of social security, even comparatively modest changes to this program have the potential to affect racial retirement inequality more dramatically than most feasible reforms to retirement tax subsidies.

It is widely understood that the US social security program faces a funding shortfall, partly resulting from the aging population. The strain is exacerbated by the cap on earnings subject to tax, as rising income inequality has steadily pushed a larger share of earnings above the taxable maximum. Moreover, less than 82 percent of earnings were subject to the social security tax in 2021, versus 90 percent in 1983 (Bivens and Gould 2023). Including some or all those untaxed earnings in the social security tax base, expanding the base to include investment and business income, and raising tax rates could shore up the system for the long-term and allow for increased benefits to reduce racial disparities (Smith et al. 2020).

Conclusion

US racial wealth inequality results from many factors that have deprived people of color of the opportunity to build wealth, starting from birth and permeating through the working years. By retirement age, White households have more than twice the wealth of both Black and Hispanic households, even after accounting for the present value of expected social security payments. These disparities are exacerbated each year by $400 billion in federal retirement tax subsidies that flow disproportionately to upper-income families, most of whom are White, and billions more in similarly untargeted state and local tax subsidies. Lawmakers have an opportunity to lessen racial inequity in retirement by restructuring retirement tax savings preferences as refundable credits rather than deductions, and by taking seriously the notion that tax preferences for retirement savings and income should be designed with low- and middle-income earners in mind, rather than the wealthy who are not in need of additional tax subsidies. Additionally, a change in philosophy would be needed that the core function of tax policy is to raise revenue to accomplish big things as a society that individuals cannot do on their own.

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Notes

1. In most cases, there is little practical distinction between exemptions and deductions aside from the location where they appear on the tax form. Exclusions, on the other hand, are somewhat more fundamental as the exclusion of something from income typically means that it will not even appear on tax forms. The mathematical impact of exclusions tends to be the same as exemptions or deductions, with the exception that exclusions often bring both income and payroll tax savings, whereas exemptions and deductions are often applied only against the income tax.
2. This figure is derived by summing datapoints from analysis by Congress's Joint Committee on Taxation. JCT calculates the revenue impact of retirement savings tax provisions as 'the income taxes foregone on current tax-excluded pension contributions and earnings less the income taxes paid on current pension distributions (including the 10-percent additional tax paid on early withdrawals from pension plans)' (JCT 2022: 5).
3. The ITEP Microsimulation Tax Model contains economic and demographic data for a representative sample of tax units that allow us to measure the amount of income within any income band that flows to tax units headed by individuals of various races or ethnicities (Institute on Taxation and Economic Policy 2023). For this analysis, we first divide our sample into income bands that match those reported by Urban-Brookings Tax Policy Center (2022b) in their analysis of the distributional impact of retirement savings tax subsidies. Then we assume that each tax unit within a given income band receives the same average retirement tax subsidy, relative to income, reported in the TPC table regardless of race or ethnicity. The findings reported in Table 13.2 are the result of aggregating those tax unit estimates to the population wide level.
4. Comparisons of the Treasury Department data with those contained in Table 13.2 are hindered by the fact that Treasury estimates somewhat different baseline population shares, by race and ethnicity, than the ITEP model (Cronin et al. 2023). The most direct comparison that can be made between these two datasets is therefore in the subsidy-to-population ratios. By that measure, the Treasury study suggests a ratio of 1.2 for White families (82 percent of subsidy compared to 67 percent of population), 0.6 for Hispanic families (9 percent of subsidy and 15 percent of population), and 0.5 for Black families (5 percent of subsidy and 11 percent of population).
5. Every person receiving social security income may exempt at least 15 percent of such income from federal personal income tax. The intent of this 15 percent floor is to promote parity in the tax treatment of social security benefits relative to private pension income by exempting the portion of social security income comprised of 'contributions' that employees make through their FICA tax payments (Congressional Research Service 2020). The basic 15 percent exemption available to all taxpayers, including those with extremely high incomes, is therefore different in character from the larger percentage exemptions available to low- and moderate-income families.

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Appendix

State Taxation of Retirement Income in 2023

State	Social Security	Private Pension	Public Pension	US Civil Service	Military Pension
Alabama	E	P	E	E	E
Arizona	E	T	T	T	E
Arkansas	E	P	P	P	E
California	E	T	T	T	T
Colorado	E	P	P	P	P
Connecticut	P	P	P	P	E
Delaware	E	P	P	P	P
District of Columbia	E	T	T	T	T
Georgia	E	P	P	P	P
Hawaii	E	P	E	E	E
Idaho	E	T	P	P	P
Illinois	E	E	E	E	E
Indiana	E	T	T	P	E
Iowa	E	E	E	E	E
Kansas	P	T	E	E	E
Kentucky	E	P	P	P	P
Louisiana	E	P	P	E	E
Maine	E	P	P	P	E
Maryland	E	P	P	P	P
Massachusetts	E	T	E	E	E
Michigan	E	P	P	P	E
Minnesota	P	T	T	T	E
Mississippi	E	E	E	E	E
Missouri	P	P	P	P	E
Montana	P	P	P	P	P
Nebraska	P	T	T	T	E
New Jersey	E	P	P	P	E
New Mexico	P	T	T	T	P
New York	E	P	E	E	E
North Carolina	E	T	P	T	E
North Dakota	E	T	T	T	E
Ohio	E	P	P	P	E
Oklahoma	E	P	P	P	E
Oregon	E	P	P	P	P
Pennsylvania	E	E	E	E	E

Continued

Continued

State	Social Security	Private Pension	Public Pension	US Civil Service	Military Pension
Rhode Island	P	P	P	P	E
South Carolina	E	P	P	P	E
Utah	P	P	P	P	E
Vermont	P	T	P	P	P
Virginia	E	T	T	T	P
West Virginia	E	T	P	P	E
Wisconsin	E	P	P	P	E

Note: States without broad-based personal income taxes are excluded from this table. Abbreviations are as follows: E, exempt in full or nearly in full; P, partially exempt; T, taxed in full or nearly in full.
Source: Authors' analysis of state tax forms, statutes, and agency websites.