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# Using Tax Data to Create a Population Estimate of Retirement Income

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Views presented are those of the authors and do not necessarily represent the views of the Internal Revenue Service, or the views of the Investment Company Institute of its members.

NTA Annual Conference

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# Goals of the Research

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- » Use data from Form 1040 and Form 1099-R to measure incidence and amount of retirement distributions
  - » IRA distributions
  - » Pensions and annuities
- » Use information returns to create estimates for the total population
- » Use text fields from Form 1099-R to categorize source of the pensions and annuities

# Relates to Literature on Discrepancy between Household Surveys and Tax Data

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- » Discrepancy between tax data and household surveys
  - » Scheiber (1995); Woods (1996) (“not all pension income”)
  - » Brady, et al. (2012); Brady et al. (2017); Bee and Mitchell (2017)
  
- » Builds on work we did with 2010 data
  - » Reconciling Form 1040 and Form 1099-R
  - » Analysis of detailed codes
  - » Comparison of tax data to CPS

# RESULTS PRELIMINARY

## Key Findings (for 2015)

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- » Most older taxpayers have retirement distributions
  - » Adding in nonfilers reduces incidence, but not substantially
- » Incidence of IRA distributions increases at 70
  - » Most 70 or older with non-rollovers have IRA distributions
  - » Account for over 30 percent of non-rollovers for the age group
- » Easier to identify category of payer than distinguish DB vs DC
  - » Government pensions account for half of non-rollover pensions and annuities paid to those 59 or older

# Outline

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- » Results from filers
- » Adding in nonfilers
- » What is in “pensions and annuities”?

# Results for Filers

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# Sample

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- » 0.1 percent sample (10/10,000) if individuals on returns
- » Sample both primary and secondary taxpayers for joint returns
- » Unit of analysis is the taxpayer
  - » Primary taxpayer on non-joint return
  - » Primary and secondary taxpayer on joint return
- » Examine incidence on both individual and return basis



# Use Both Tax Returns and Information Returns

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- » Focus of this work is on *retirement distributions*
  - » Form 1040
    - » Line 15: “IRA distributions”
    - » Line 16: “Pension and annuities”
  - » Form 1099-R
- » Larger project will look at income more broadly

# Taxpayers Report Distributions on Form 1040

Lines 7 to 22 of 2017 Form 1040

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7		
8a	Taxable interest. Attach Schedule B if required		8a		
b	Tax-exempt interest. Do not include on line 8a	8b			
9a	Ordinary dividends. Attach Schedule B if required		9a		
b	Qualified dividends	9b			
10	Taxable refunds, credits, or offsets of state and local income taxes		10		
11	Alimony received		11		
12	Business income or (loss). Attach Schedule C or C-EZ		12		
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		13		
14	Other gains or (losses). Attach Form 4797		14		
15a	IRA distributions	15a	b	Taxable amount	15b
16a	Pensions and annuities	16a	b	Taxable amount	16b
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17		
18	Farm income or (loss). Attach Schedule F		18		
19	Unemployment compensation		19		
20a	Social security benefits	20a	b	Taxable amount	20b
21	Other income. List type and amount		21		
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income		22		

Retirement Distributions

# Payers Report Distributions on Form 1099-R

2010 Form 1099-R

<input type="checkbox"/> CORRECTED (if checked)			OMB No. 1545-0119		
PAYER'S name, street address, city, state, and ZIP code			1 Gross distribution	2010	
			\$	Profit-Sharing	
			2a Taxable amount	Form 1099-R	
			\$		
			2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	
PAYER'S federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a)	4 Federal income tax withheld	<b>Copy B</b> <b>Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.</b>	
		\$	\$		
RECIPIENT'S name	5 Employee contributions / Designated Roth contributions or insurance premiums	6 Net unrealized appreciation in employer's securities			
Street address (including apt. no.)	\$	\$			
City, state, and ZIP code	7 Distribution code(s)	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other	<b>Detailed Codes &amp; IRA Checkbox</b>	
	\$	\$	\$		
	9a Four percentage of total distribution %	9b Total employee contribution			
		\$			
	10 State tax withheld	11 State/Payer's state no.	12 State distribution		
	\$		\$		
Account number (see instructions)	13 Local tax withheld	14 Name of locality	15 Local distribution		
	\$		\$		
	\$		\$		

Gross Distributions

Taxable Distributions

Detailed Codes & IRA Checkbox

Form 1099-R

Department of the Treasury - Internal Revenue Service

# Reconciling Form 1040 with Form 1099-R

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- » Allocate Form 1040 amounts for filers
  - » Allocate taxable and nontaxable by detailed code
  - » Identify “Rollover-type” distributions and non-rollovers
  - » Split between primary & secondary for joint returns

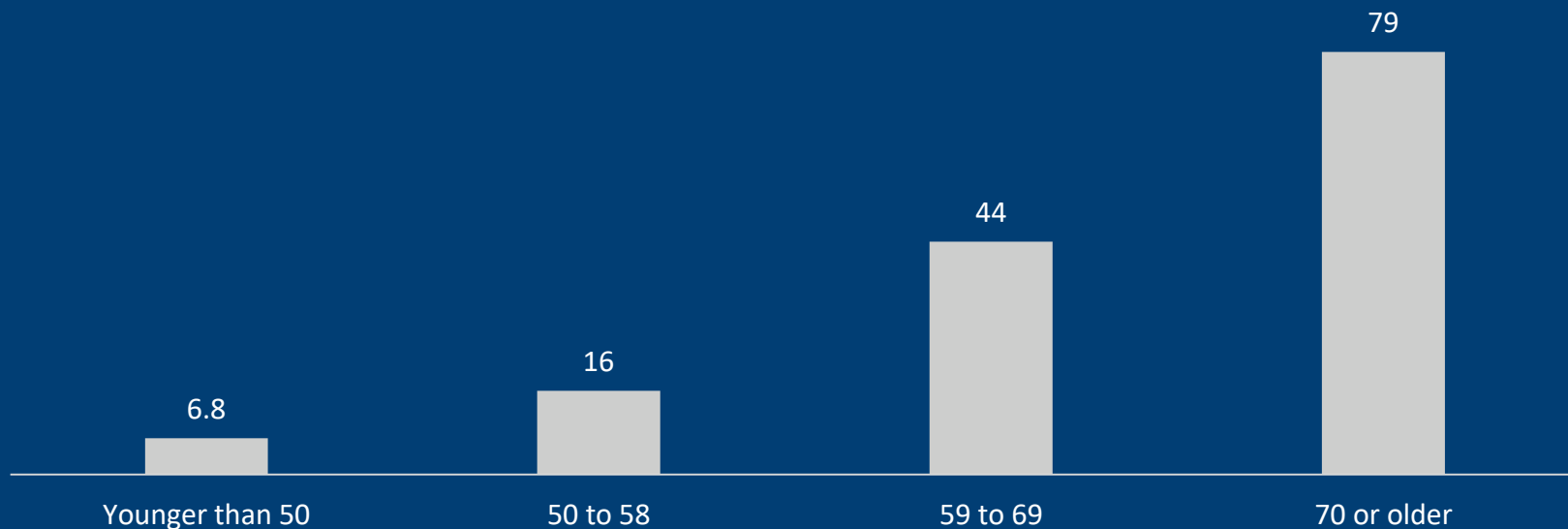
# Results Presented by Age

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- » Younger than age 50
- » Age 50 to 58
- » Age 59 to 69
- » Age 70 or older

# Incidence of Gross Distributions Increases with Age

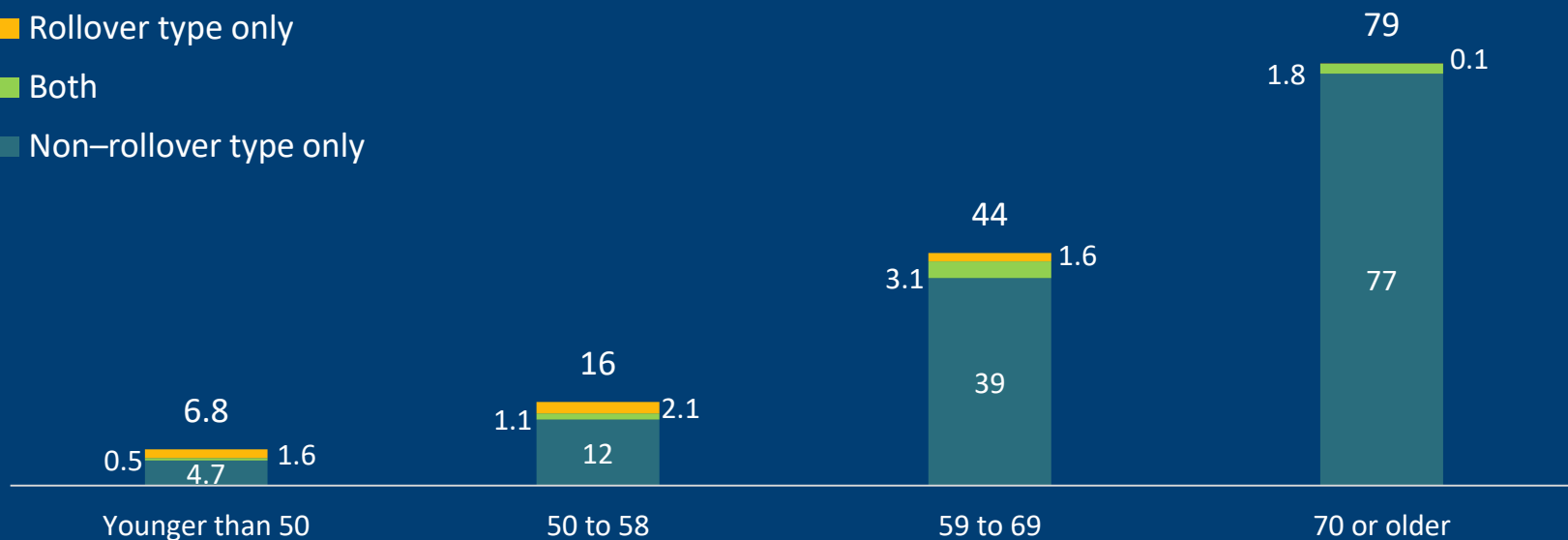
*Share of all taxpayers in age group (percent), 2015*



# Most Have Non-Rollover Distributions

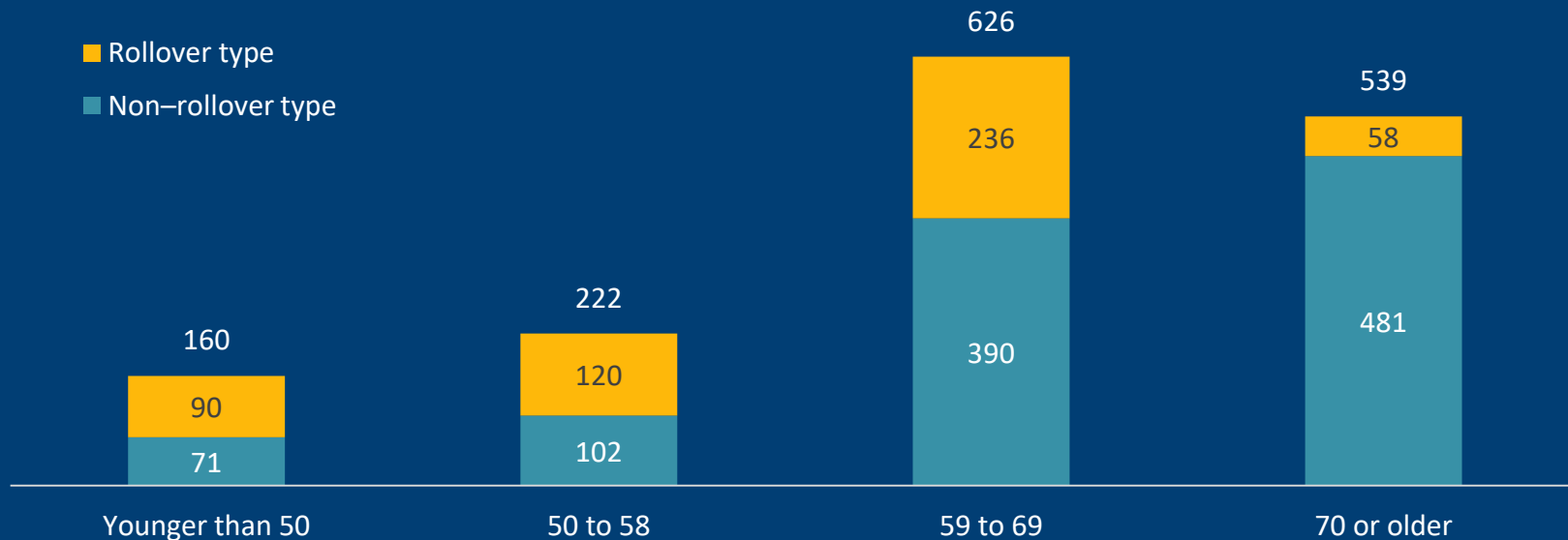
Share of all taxpayers in age group (percent)

- Rollover type only
- Both
- Non-rollover type only



# Younger Taxpayers Preserve Over Half of Distributions

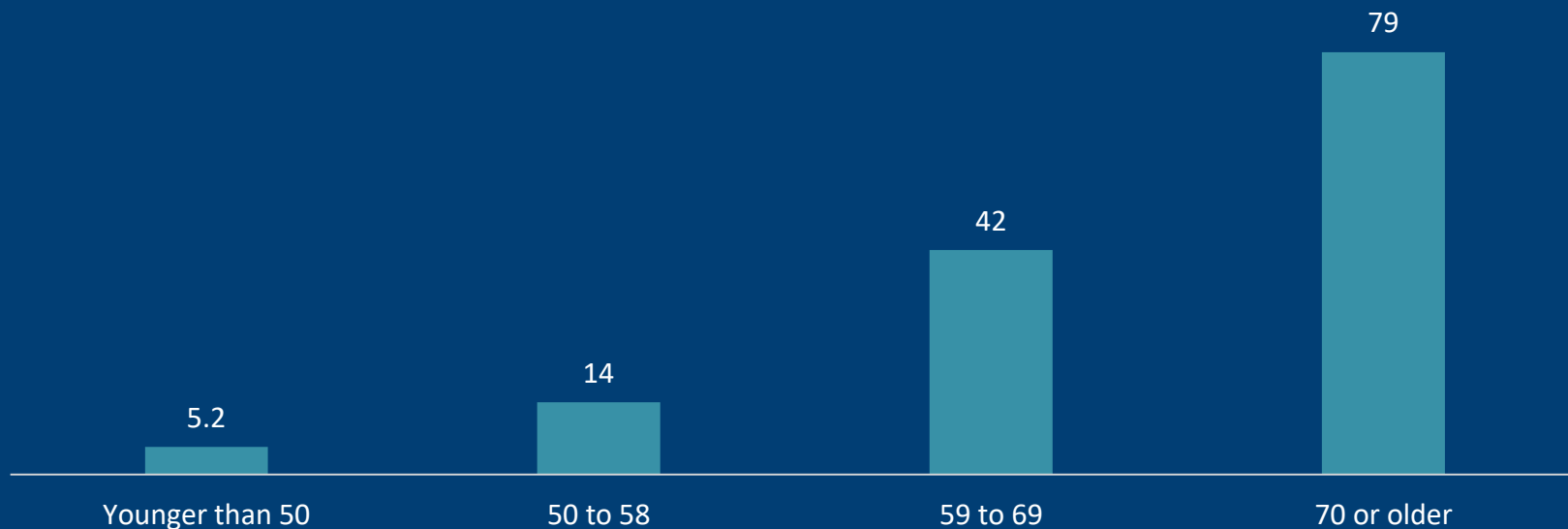
*Billions of dollars*





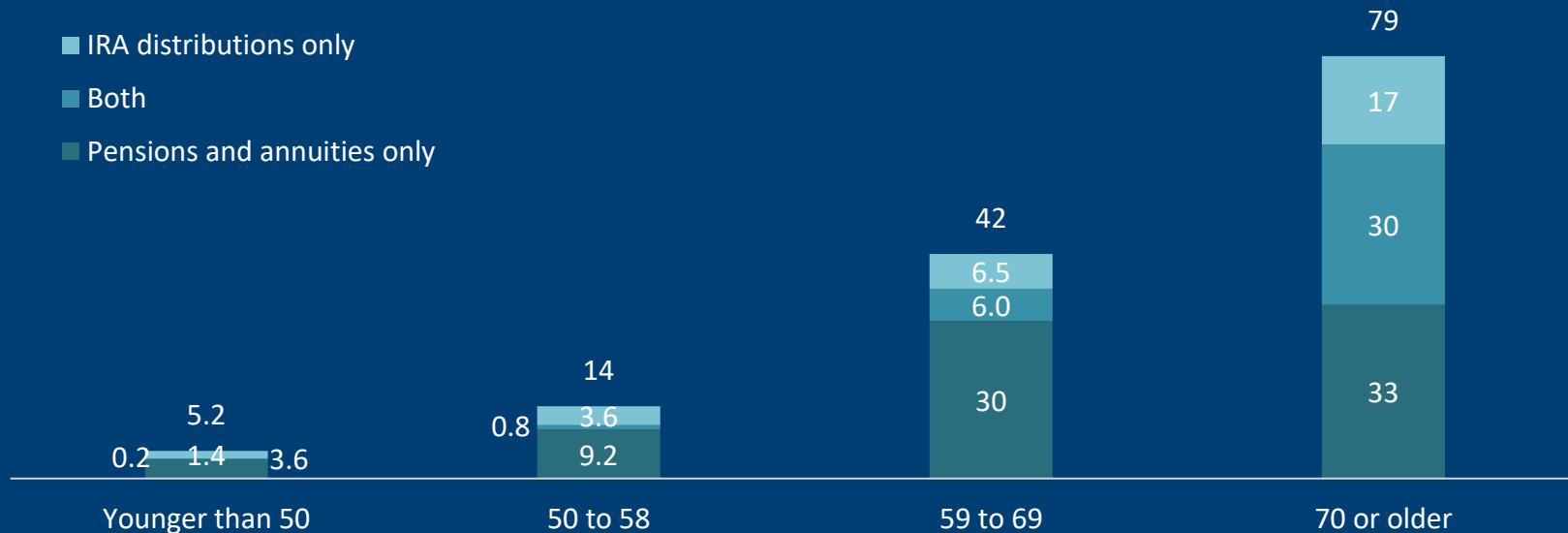
# Turning to Non-Rollover Distributions ...

*Share of all taxpayers in age group (percent)*



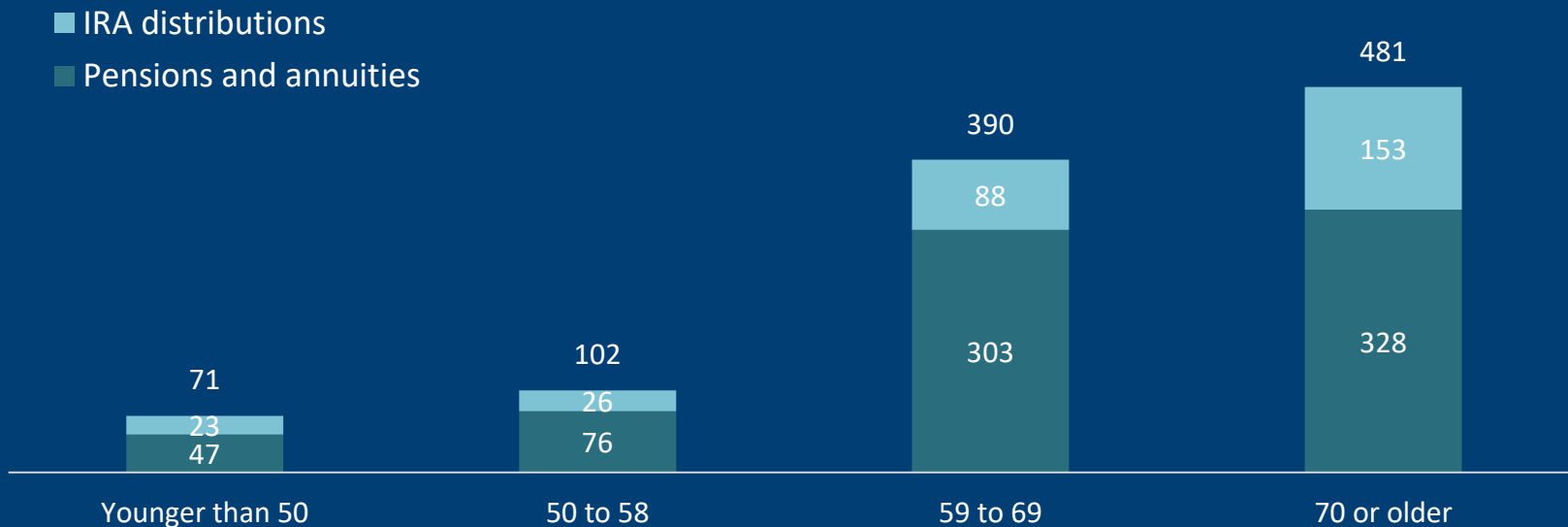
# Most Have Pensions and Annuities, but Many Older Taxpayers Have IRA Distributions

Share of all taxpayers in age group with non-rollover distributions by source (percent)



# Most of the Dollars from Pensions and Annuities

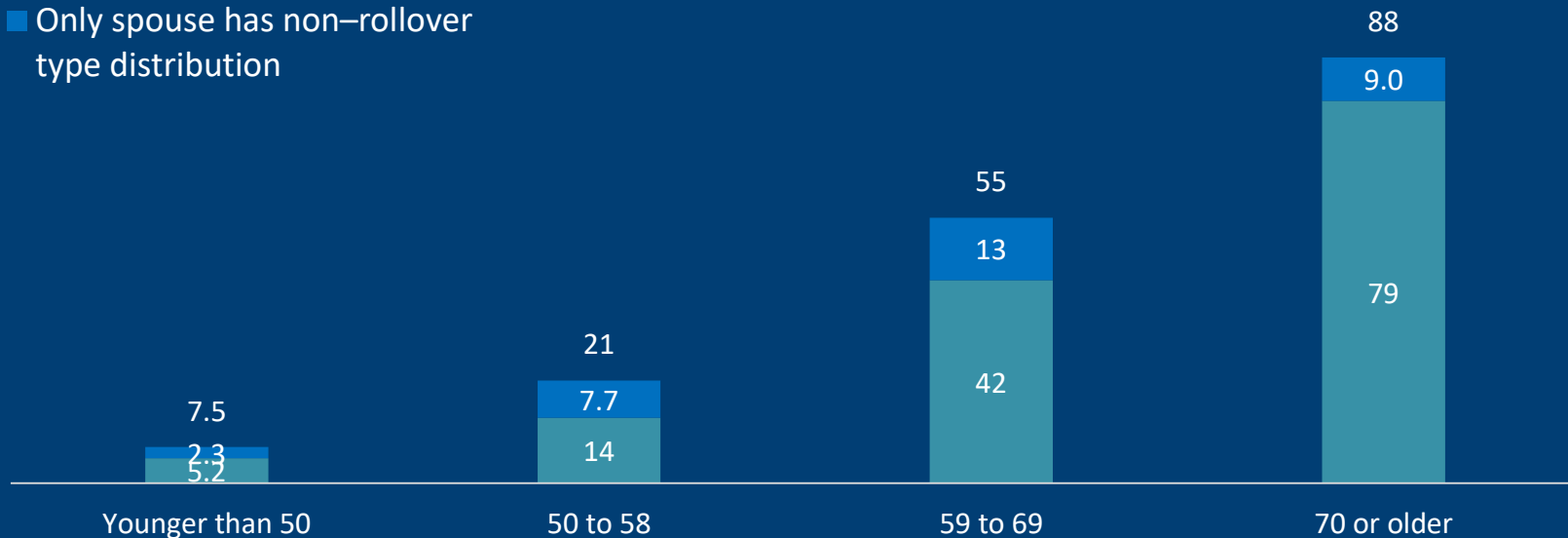
*Billions of dollars*



# Many More Are on Returns with Non-Rollovers

Share of all taxpayers in age group with non-rollover distributions reported on return (percent)

■ Only spouse has non-rollover type distribution



# Summary

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- » Most taxpayers 59 or older receive non-rollover distributions
  - » 55 percent 59 to 69
  - » 88 percent 70 or older
- » Most non-rollovers from pensions and annuities
- » But, half of taxpayers 70 or older with non-rollovers receive IRA distributions

# Adding in Nonfilers

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# First Cut at Adding Nonfilers

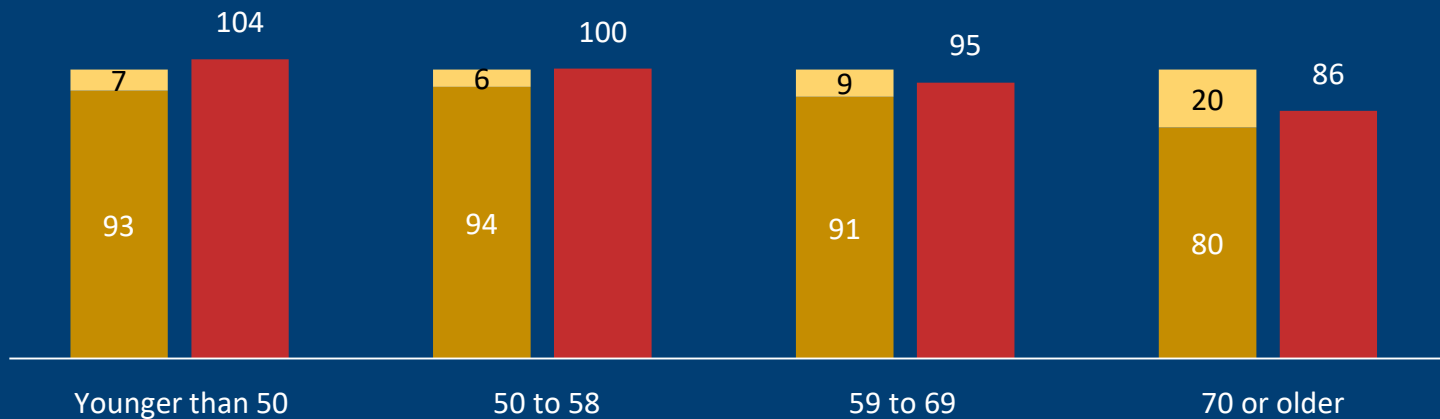
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- » 0.1 percent sample (10/10,000)
- » Sample five information returns for nonfilers
  - » Form W-2 (wages and tips)
  - » Form SSA-1099 (Social Security benefits)
  - » Form 1099-R (retirement distributions)
  - » Form 1099-INT (interest income)
  - » Form 1099-DIV (dividends)
- » Compare to CPS population estimates

# We Identify More Nonfilers Among Older Individuals

Share of sample by filing status; and comparison with CPS population estimates (percent)

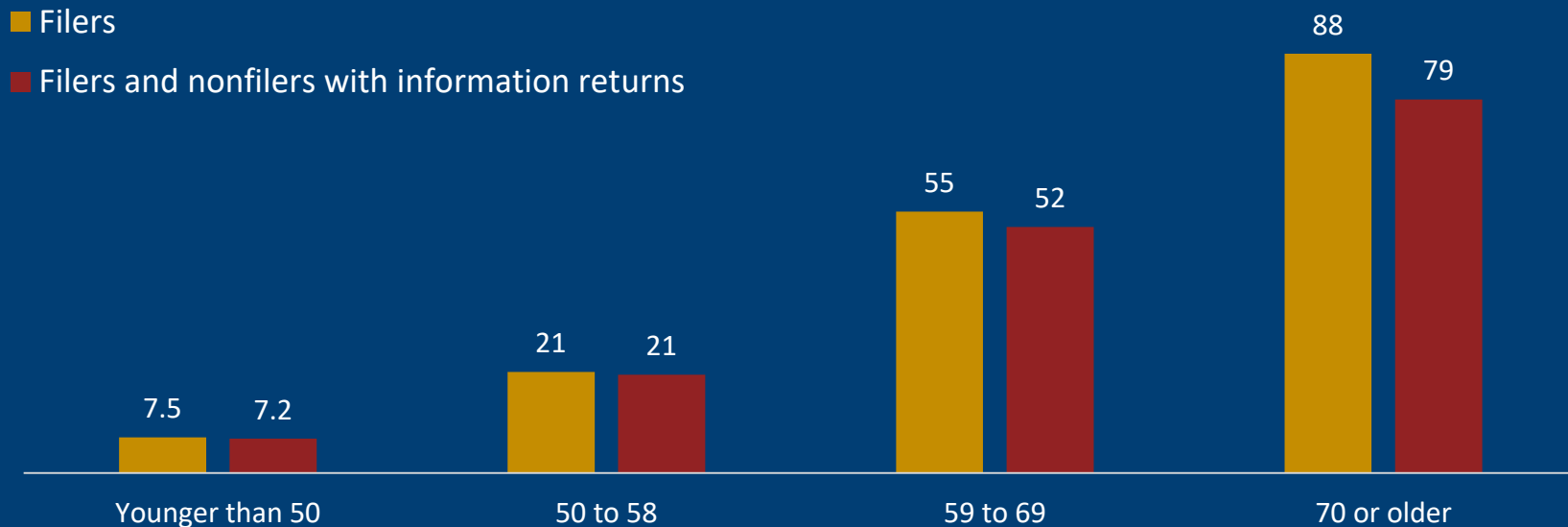
- Share of CPS population with nonzero income
- Nonfilers with information returns
- Filers





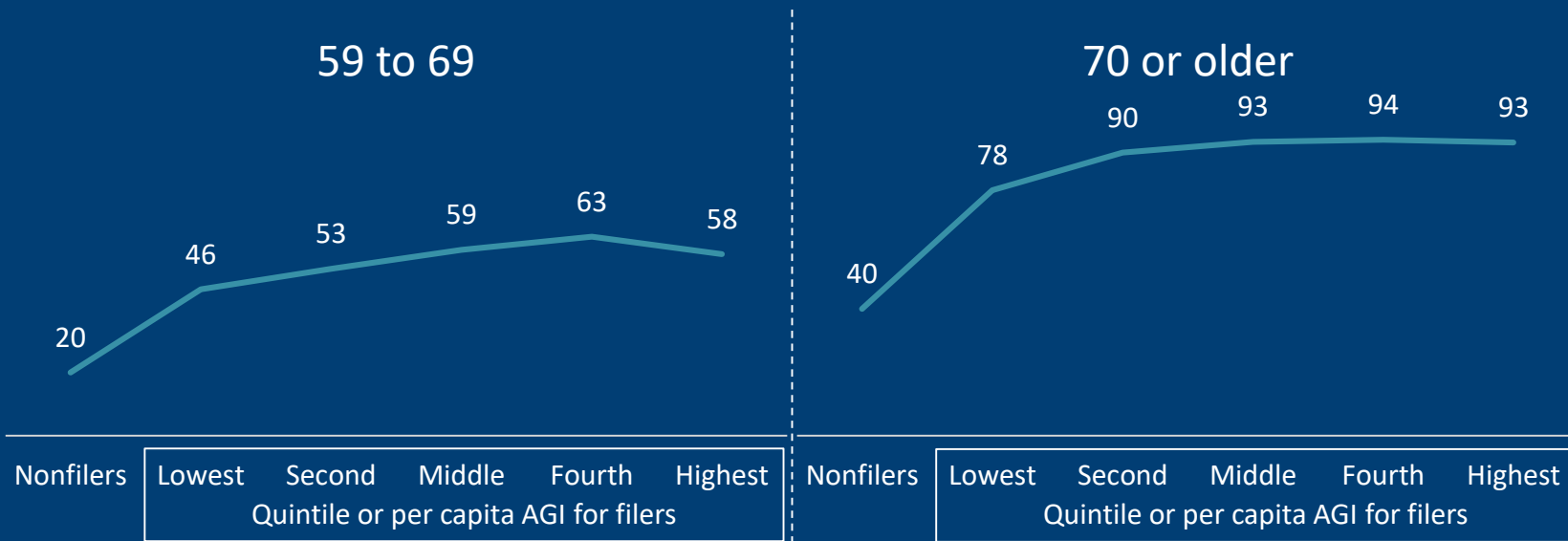
# Most 70 or Older Receive Non-Rollover Distributions

*Incidence for different populations (percent)*



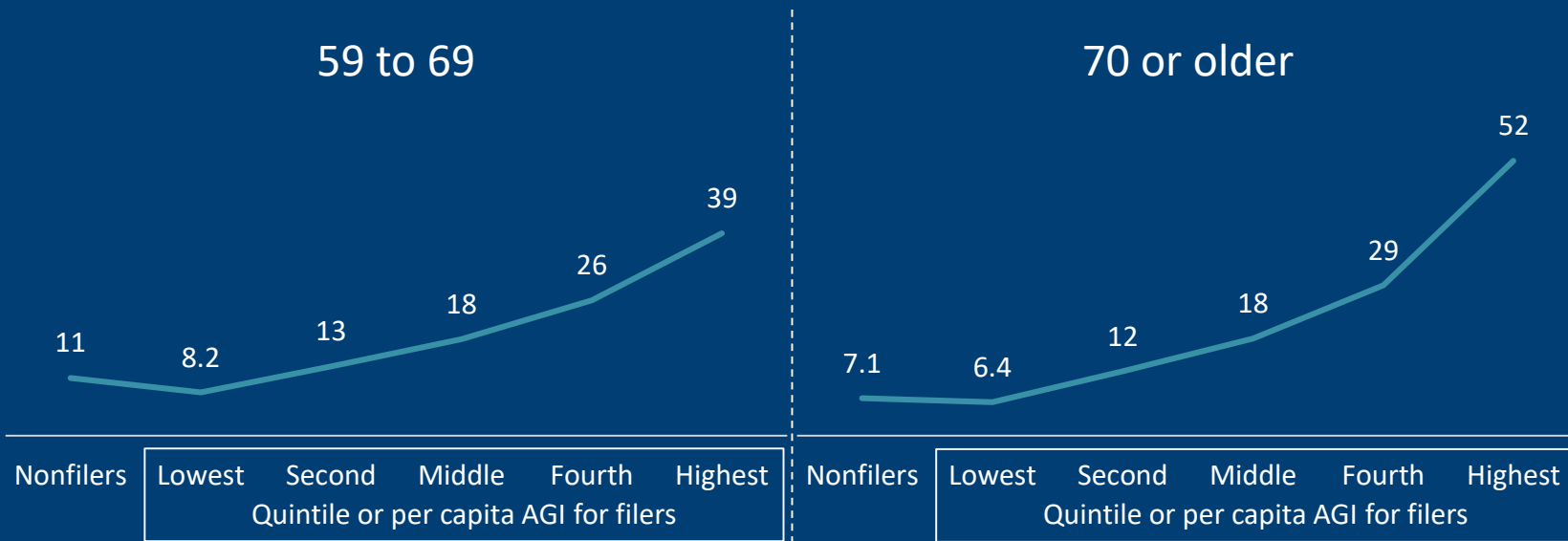
# Incidence High Across the Income Distribution

*Non-rollover incidence for filers by per capita AGI and for nonfilers (percent)*



# Average Size of Distribution Increases with Income

Average non-rollover amounts for filers by per capita AGI and for nonfilers (thousands of dollars)



# What Is in “Pensions and Annuities”?

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# Others Have Tried to Identify DB vs DC

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- » Brady, et al. (2017)
  - » Consistency of payments
- » Bee and Mitchell (2017)
  - » EIN, pattern of federal government DB & DC
- » Goodman, et al. (2019)
  - » EIN, name fields, Bee and Mitchell (2017), cluster analysis



EIN, name fields

# Payers Report Distributions on Form 1099-R

2010 Form 1099-R

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0119		<b>2010</b> Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>
PAYER'S name, street address, city, state, and ZIP code		<b>1</b> Gross distribution \$	<b>2a</b> Taxable amount \$		
PAYER'S federal identification number		<b>2b</b> Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>	<b>Copy B</b> <b>Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.</b>	
RECIPIENT'S identification number		<b>3</b> Capital gain (included in box 2a) \$	<b>4</b> Federal income tax withheld \$		
RECIPIENT'S name		<b>5</b> Employee contributions / Designated Roth contributions or insurance premiums \$	<b>6</b> Net unrealized appreciation in employer's securities \$	This information is being furnished to the Internal Revenue Service.	
Street address (including apt. no.)		<b>7</b> Distribution code(s)	<b>8</b> Other		
City, state, and ZIP code		IRA/ SEP/ SIMPLE <input type="checkbox"/>	\$ %		
Account number (see instructions)		<b>9a</b> Your percentage of total distribution %	<b>9b</b> Total employee contributions \$		
1st year of desig. Roth contrib.		<b>10</b> State tax withheld \$	<b>11</b> State/Payer's state no.	<b>12</b> State distribution \$	
Account number (see instructions)		<b>13</b> Local tax withheld \$	<b>14</b> Name of locality	<b>15</b> Local distribution \$	

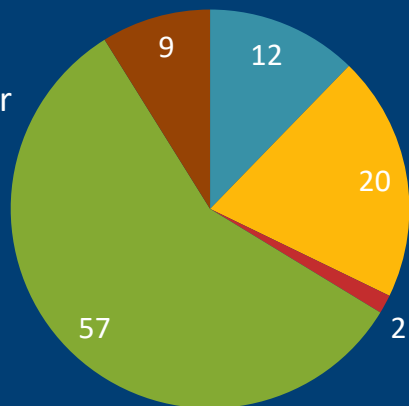
Form **1099-R**

Department of the Treasury - Internal Revenue Service

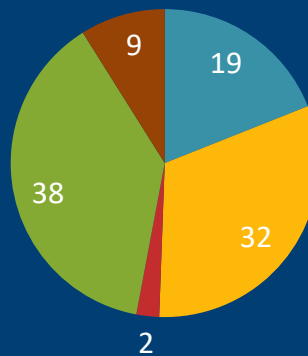
# Payer Type of 1099-R Distributions

Percentage of gross and non-rollover 1099-R distributions, 2015

- Federal government
- State and local governments
- Union
- Financial services
- Other/unknown payer



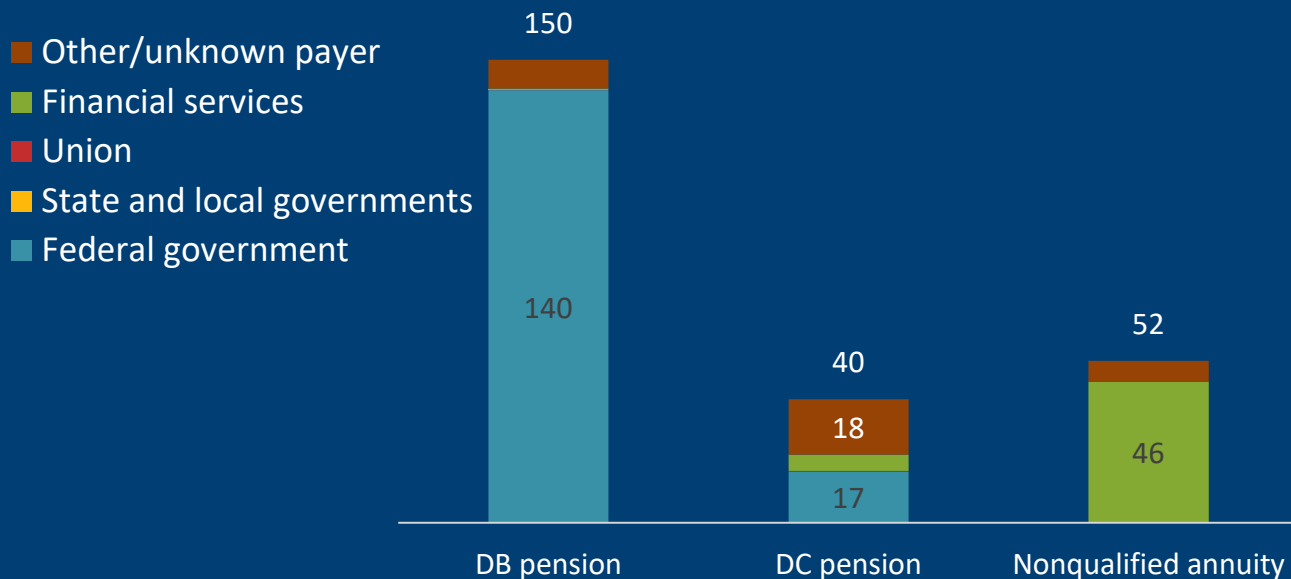
Gross distributions: \$1,322 billion



Non-rollover distributions: \$804 billion

# Outside of the Federal Government, Few Payers Identifiable by Source

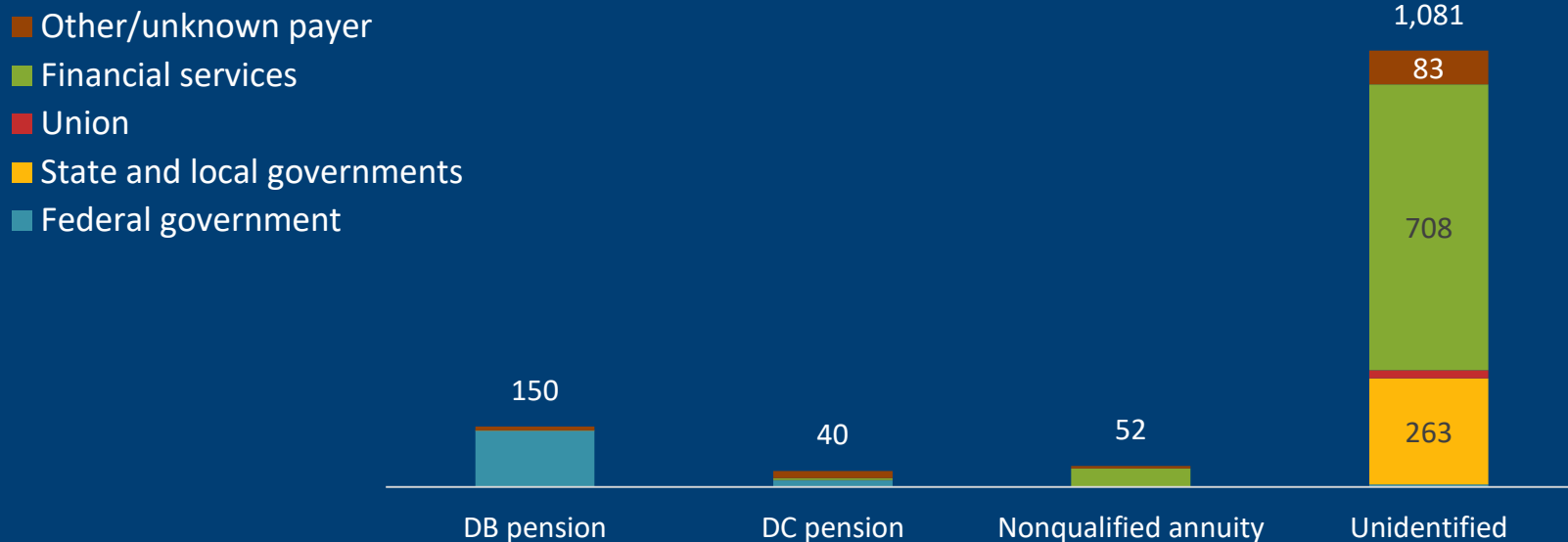
*Billions of dollars*





# Outside of Government, Most Unidentified Distributions Paid by Financial Services Companies

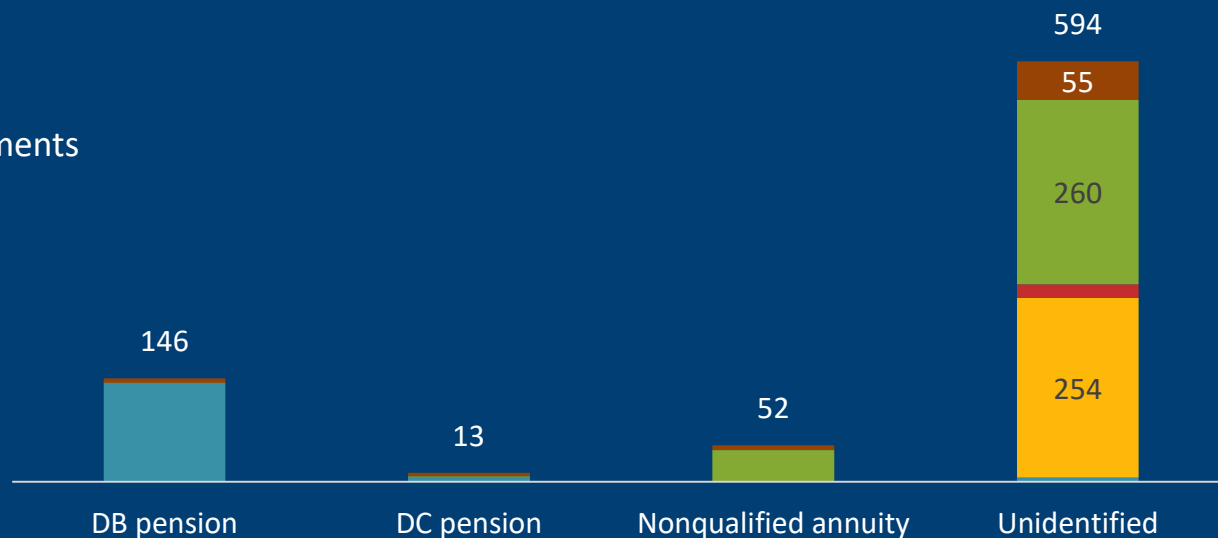
*Billions of dollars*



# Share of Non-Rollovers Unidentified Is Lower

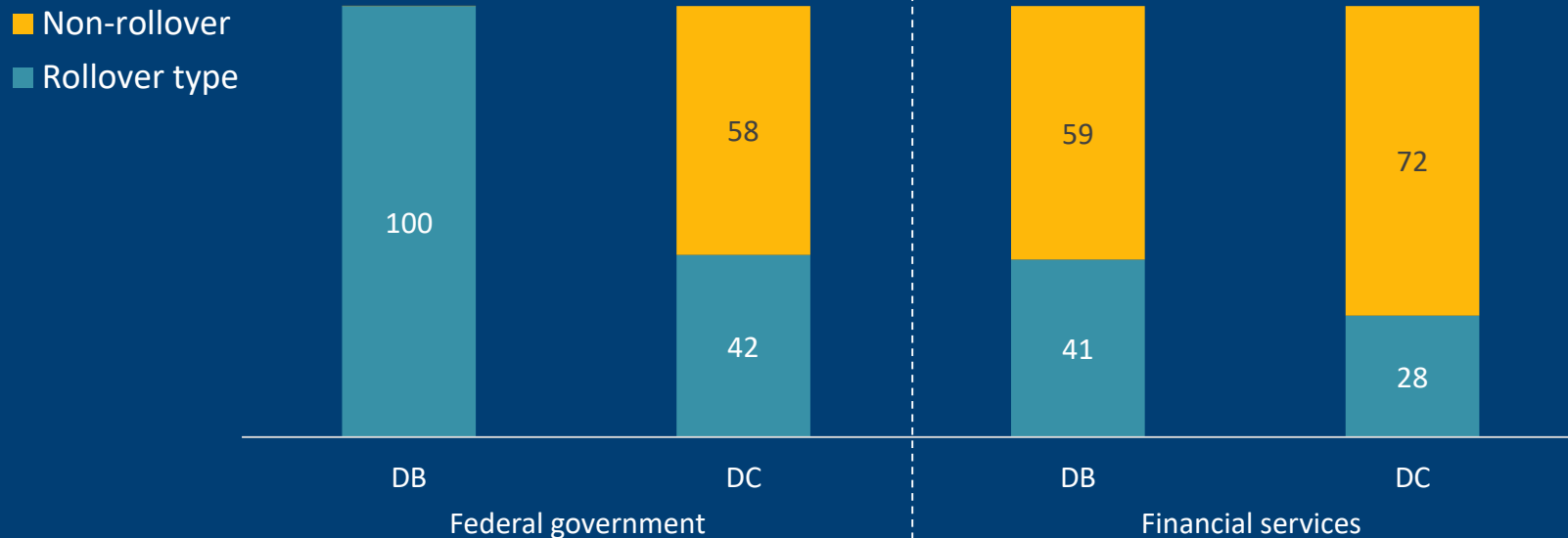
*Billions of dollars*

- Unidentified
- Financial services
- Union
- State and local governments
- Federal government



# Government DB Distributions Differ from Financial Service DB Distributions

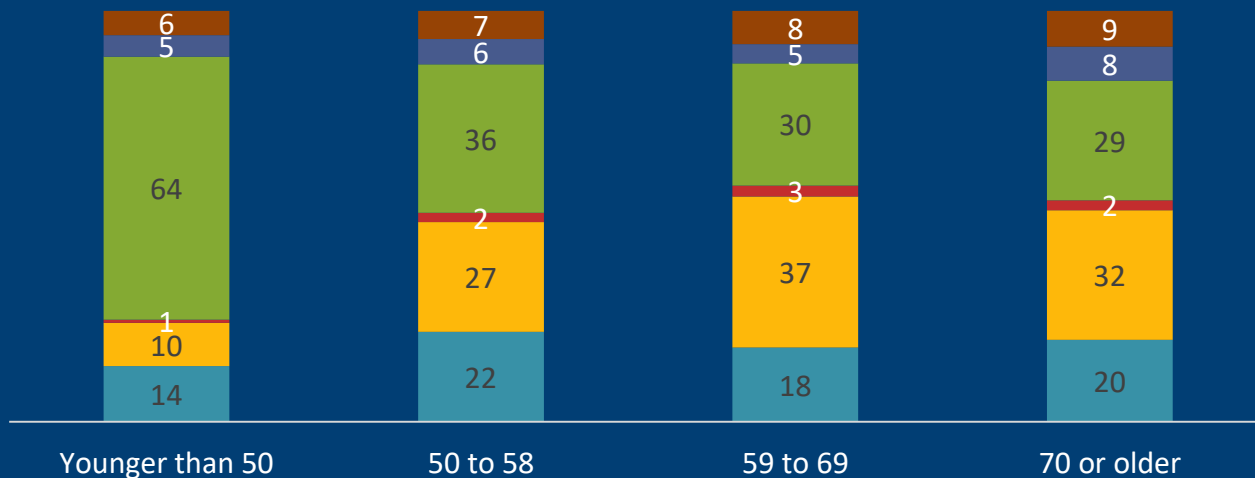
*Percentage of distributions by source and payer type, 2015*



# Government Plans Half of Pensions for 59 or Older

*Percentage of non-rollover distributions, 2015*

- Other/unknown payer
- Nonqualified annuity
- Financial services
- Union
- State and local
- Federal



## Key Findings (for 2015) \*Preliminary\*

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- » Most older taxpayers have retirement distributions
  - » Adding in nonfilers reduces incidence, but not substantially
- » Incidence of IRA distributions increases at 70
  - » Most 70 or older with non-rollovers have IRA distributions
  - » Account for over 30 percent of non-rollovers for the age group
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