# Comments for:

# Using Panel Tax Data to Examine the Transition to Retirement

## by Peter Brady

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# Two Main Takeaways

- Information returns are more than just incremental information
  - Using Form 1040 as the basis for sampling and describing the population becoming problematic
  - Time for a new approach to sampling?
- Tax data has revealed a number of apparent “anomalies” in lifecycle models
  - Some of that is about refining concepts
  - Some is about fixing the standard model

# Information Returns

- Paper shows clearly that many "disappear" from Form 1040 population at retirement
- Overall, estimates of non-filer population (Piketty, Saez, etc) around 20-25%
  - Depends a lot on units, tax returns vs households
  - Know very little about the missing incomes
- Nature of their income (not just levels) is often the reason they are being excluded

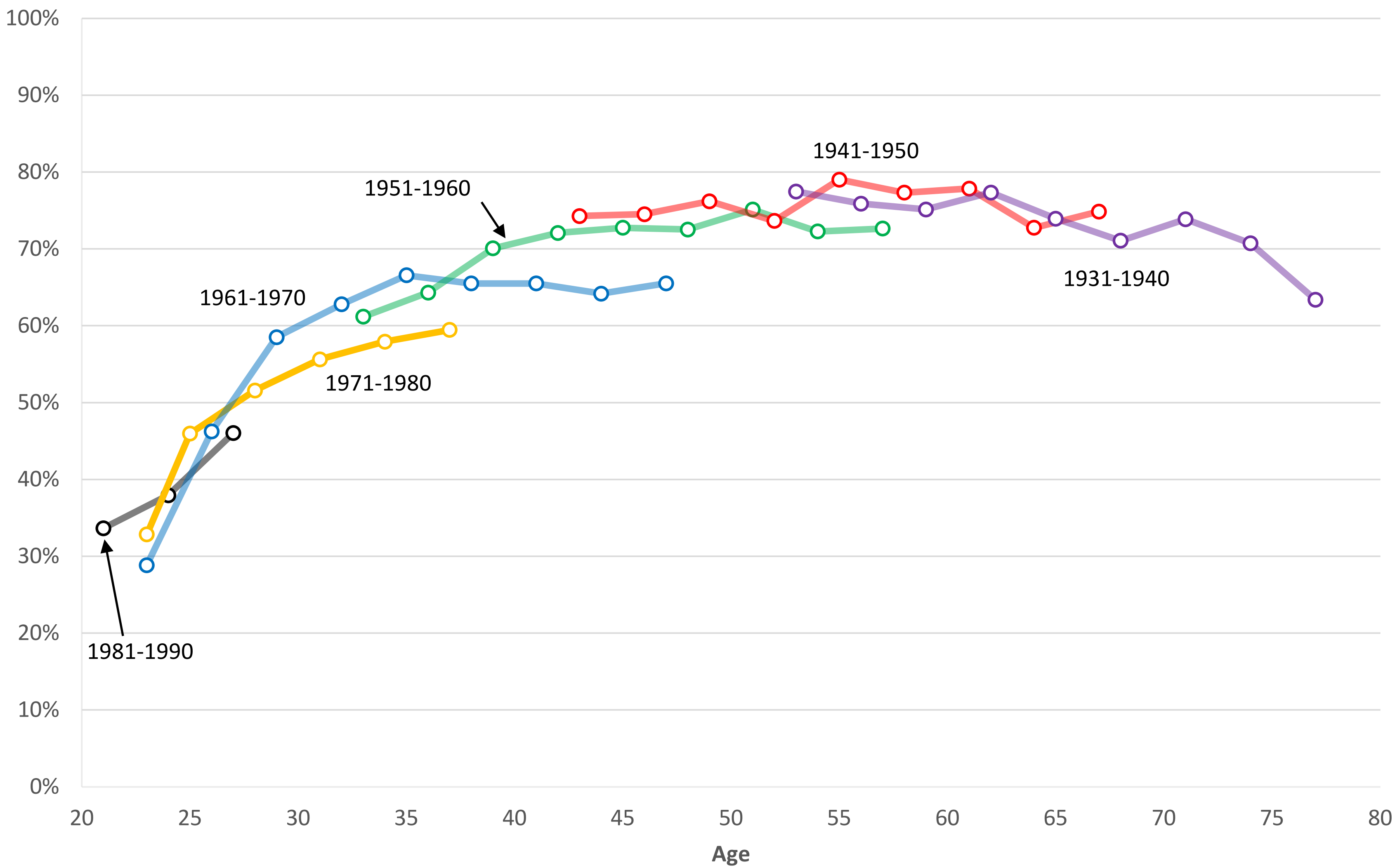
# Measuring Economic Resources

- Tax data supplementing/supplanting surveys as basis for distributional analysis
- This is an opportunity to fundamentally change how we think about and measure economic resources across the population
- Next generation SOI?
  - Sample entire population using Form 1040 along with key information returns (W2, 1098s)
  - Build out more comprehensive income measures even for those with Form 1040

# Observations from Enhanced Panel

- Most people (85% in 1999) at retirement have some form of non-Social Security claims
  - Yes, but that's changing rapidly
  - Especially at lower incomes
- Net of tax income more stable than gross income at retirement
  - Replacement rate analysis based on gross income seriously flawed
  - Different sources dominate across income groups

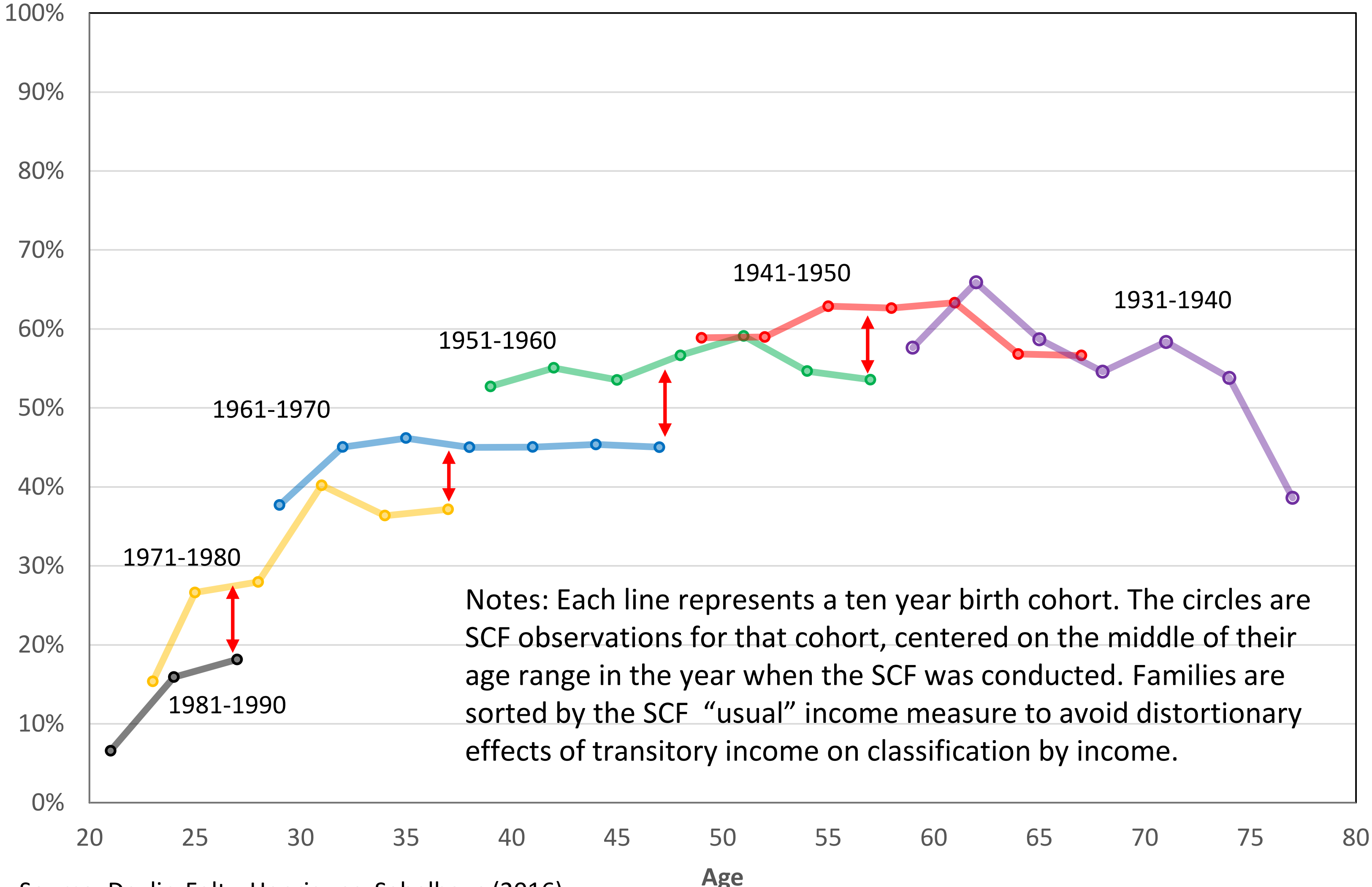
# Retirement Participation: Lifecycle View




Note: Participation in any retirement plan (DB, DC, or IRA)

Source: Survey of Consumer Finances, 1989-2013

# Retirement plan coverage declining for bottom 50%...




Source: Devlin-Foltz, Henriques, Sabelhaus (2016)

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- Net of tax income more stable than gross income at retirement
  - Private saving/retirement plan replacement rate analysis based on gross income seriously flawed
  - Different sources dominate across income groups

# Retirement Wealth of Near-Retirees, 2013

| | Median Usual Income | Median Private (DB + DC) Retirement Wealth | Median Social Security Wealth | Median Total Retirement Wealth | Ratio of Private Retirement Wealth to Usual Income | Ratio of All Retirement Wealth to Usual Income |
|---|---|---|---|---|---|---|
| Bottom 50 | $38,552 | $6,500 | $171,966 | $204,465 | 17% | 530% |
| Next 45 | $103,669 | $288,371 | $343,373 | $636,085 | 278% | 614% |
| Top 5 | $487,524 | $716,000 | $478,707 | $1,123,748 | 147% | 231% |

Source: Devlin-Foltz, Henriques, and Sabelhaus (2016) based on Survey of Consumer Finances.

Note: Numbers are for 2013 only, for those households where the respondent was born between 1951 and 1960 and is currently employed.

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# Retirement Savings and Lifecycle Outcomes

- How do facts coming out of tax data fit into a growing list of observations that seem contrary to the “standard” lifecycle model?
- How should we modify the “standard” lifecycle model to incorporate new facts?
- How should we modify retirement savings policy in response to emerging trends and whatever model we really think is behind people’s behavior?

# Short List: Emerging Retirement Behavior Facts

- Composition of retirement income varies dramatically across lifetime income groups
- Stable retirement consumption as a percent of pre-retirement income not descriptive for most
- Many people take lump sums from retirement accounts, especially at job separation
- Most people with IRA and 401(k) accounts don't systematically draw balances down in retirement
- People don't annuitize DC balances, and often convert DB streams to balances when possible

# Emerging Facts and the Lifecycle Model

- Single agent models with simple consumption/leisure tradeoff, no health production, and fixed or stable-declining potential wage rate do not generate the facts
  - Need to generate realistic spending changes around retirement age due to household composition
  - Need health in utility function shifting MU(c), and time allocation a key input into (stochastic) health production
  - Need lifetime jobs with option value, so agents uncertain about whether they could be rehired at current wage
  - Need account balances to emerge as the lifecycle replacement for more work: insurance against shocks
- Alternative is surrender to behavioral economics explanations, accept the implied policy proposals

# Implications for Retirement Policy?

- For lower income, why save against shocks that are covered (maybe badly) by social insurance?
  - Not optimistic about new employer IRA mandates
  - Shore up social insurance finances, add more choice
  - Voluntary Social Security "Plus" for people 50+?
- Tax policy based on deferred consumption logic, DB plan design may offer a more useful guide
  - Eliminate all (even apparent) tax reasons not to work, especially earnings test and "my money back" effect
  - Cap tax-preferred *balances* instead of contributions

**Thanks!**

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