August 27, 2014

**Summary:**

**Project on Financial Incentives and Retirement Savings**


**Current Status of the Study**

The project is in the early planning stages. The concept was agreed to by the Working Party on Pensions and the objectives and general framework for the study were presented at the June 2014 Working Party meeting. Comments on the planning documents have been requested to be provided to the OECD Secretariat staff by early September after which the proposed design of the study will be refined and presented again for discussion at the December 2014 meeting. The target date for completion of the study is December 2015.

**Background and Objectives**

The study will follow up on related work on the value of tax incentives for pensions that the OECD has undertaken periodically over the past decade. It is intended to provide a descriptive survey of the type and value of financial incentives in use by OECD countries to stimulate private savings for retirement. It also will compare the cost effectiveness of tax preferences and incentives such as matching contributions to promote private pension savings. The basis for this analysis would be to develop measures of both the value of the various forms of tax incentives and the impact these have in levels of retirement savings that are comparable across countries. The study is envisioned to use this analysis to evaluate whether tax incentives are more or less cost effective than alternative types of incentives or subsidies and to develop policy recommendations. The proposed study is organized into five sections:

1. The initial section will collect descriptive information to inventory the structure of tax and financial incentives including requirements for eligibility for these incentives.
2. The second element will attempt to produce estimates of the value of incentives for different groups of individuals according to income, employment status and the type of pension plan or system in which they participate.

3. In conjunction with the above an evaluation of how the public retirement system interacts with incentives will be developed.

4. The fourth section will seek to assess the cost effectiveness of tax incentives in creating additional individual retirement savings. The study will try to measure the net cost of various incentives over time by considering both the costs of tax preferences and the potential recapture of tax revenues when benefits from the incentives are paid.

5. The cost effectiveness of tax incentives will then be evaluated on an aggregate or national level to determine whether they create net new savings and how this compares with the net costs of the incentives.

6. The final section will evaluate tax incentives in relation to alternative types of subsidies, such as matching contributions, to see if alternative approaches that simply raise the value of publicly financed benefits are likely to be more cost effective in increasing retirement savings.

SUGGESTED COMMENTS FROM THE AMERICAN BENEFITS COUNCIL

1. The study is very broad and ambitious and is therefore likely to entail very complex analysis. Addressing in depth all of the issues suggested will likely not be feasible. Consideration should therefore be given to narrowing the scope to focus. For example, attempting to address defined benefit pension plans will impose major challenges in attributing the value of tax preferences to individuals or linking these with benefits. So it may be more feasible to undertake the work by first addressing defined contribution arrangements and developing the analytical framework and methods for these before considering extending the work to include DB plans.

2. Greater attention will likely need to be paid to how the manner in which tax incentives are designed and administered influences the outcome in the context of the qualifying conditions for a plan to fulfill to obtain tax preferences. Many systems impose minimum participation and distributional standards that will induce coverage and benefit levels that are well beyond what would result from estimation of the value of the tax incentive on an individual basis. This issue is mentioned in the objectives of the study but it is not obvious how it will be addressed.
3. Defining the baseline for the analysis (i.e. establishing what would coverage and benefit levels be absent the presence of incentives) is critical to the issue above and a variety of other key aspects of the study. This needs to be more fully defined before the feasibility of the study to achieve its objectives can be addressed.

4. Other key parameters and assumptions that need to be discussed in the planning are:

   a. What is assumed on the incidence of a sponsor’s costs for a plan? For example are matching contributions assumed to be a tax deductible additional expense for a sponsor or to be offset by a reduction in taxable earnings?

   b. What kinds of behavioral responses are to be assumed with the provision of incentives? For example, are savings levels assumed to be caused by factors separate from incentives, and therefore reduced by subsidies, or in some manner a result of subsidies? These key assumptions need to be clarified before the analytical methods can be developed.