

Key Elements of the U.S. Tax System

How large are the tax expenditures for retirement saving?

TAXES AND RETIREMENT SAVING
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Q. How large are the tax expenditures for retirement saving?

A. The tax expenditures are very large, indeed. They reached almost \$230 billion in 2017 and will likely reach nearly \$1.4 trillion over the 2018–22 period.

Tax expenditures are revenue losses attributable to special exclusions, exemptions, deductions, credits, and other provisions in the tax code. The Congressional Joint Committee on Taxation calculates the tax expenditure for retirement savings as the sum of the revenue loss attributable to the tax exclusion for current-year contributions and earnings on account balances, minus the revenue from taxation of current-year pension and individual retirement account distributions (table 1).

The 2017 Tax Cuts and Jobs Act did not make significant changes to retirement saving tax expenditures. However, the new law did modestly reduce the cost of those tax expenditures by reducing individual income tax rates. Lower marginal tax rates reduce the cost of tax expenditures that take the form of exclusion and deductions because reducing taxable income provides smaller tax benefits at lower rates.

TABLE 1

Tax Expenditures for Retirement Savings

Billions of Dollars, Fiscal Years 2017–22



Plan Type	2017	2018	2018–22
Net exclusion of pension contributions and earnings	\$202.1	\$225.1	\$1,247.7
Defined benefit plans	\$77.4	\$87.9	\$518.6
Defined contribution plans	\$117.0	\$125.5	\$648.0
Keogh plans	\$7.7	\$11.7	\$81.1
Individual retirement accounts	\$25.5	\$25.7	\$139.4
Traditional IRAs	\$18.0	\$17.8	\$96.5
Roth IRAs	\$7.5	\$7.9	\$42.9
Credit for elective deferrals and IRA contributions	\$1.4	\$1.2	\$6.0
Total expenditures	\$229.0	\$252.0	\$1,393.1

Sources: Joint Committee on Taxation (2018a, 2018b).

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The White House Office of Management and Budget publishes tax-expenditure estimates calculated in a similar fashion as the US Department of the Treasury's Office of Tax Analysis. The White House also publishes alternative estimates that take into account the deferral of tax payments on contributions to pensions and individual retirement accounts, as well as earnings. That calculation is the sum of the immediate revenue loss attributable to retirement savings contributions, plus the "present value" of revenue loss that occurs because of the tax exemption for accrued earnings on that contribution in future years, minus the present value of the revenue due upon future withdrawals (table 2).

TABLE 2

Present Value of Tax Expenditures for Retirement Savings Billions of dollars, activity in calendar year 2018



Plan Type	2018
Employer plans	\$136.3
Defined benefit plans	\$41.9
Defined contribution plans	\$88.8
Self-employed plans	\$5.6
Individual retirement accounts	\$7.1
IRA contributions and earnings	\$1.8
Roth earnings and distributions	\$4.8
Nondeductible IRA earnings	\$0.6

Source: US Department of the Treasury, Office of Tax Analysis, "Tax Expenditures," Table 4.

Data Source

US Department of the Treasury, Office of Tax Analysis. "[Tax Expenditures](#)." Table 4. "Present Value of Selected Tax Expenditures for Activity in Calendar Year 2018."

Further Reading

Joint Committee on Taxation. 2018a. "[Estimates of Federal Tax Expenditures for Fiscal Years 2017–2021](#)." JCX-34-18. Washington, DC: Joint Committee on Taxation.

———. 2018b. "[Estimates of Federal Tax Expenditures for Fiscal Years 2018–2022](#)." JCX-81-18. Washington, DC: Joint Committee on Taxation.