

Key Elements of the U.S. Tax System

TAXES AND RETIREMENT SAVINGS

How large are the tax expenditures for retirement saving?

Q. How large are the tax expenditures for retirement saving?

A. The tax expenditures for retirement savings are very large, indeed. They were over \$250 billion in 2019 and will likely exceed \$1.5 trillion over the 2019–2023 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 (JCT) 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).

TABLE 1**Tax Expenditures for Retirement Savings**

Billions of dollars, fiscal years 2019–2023



Plan type	2019	2020	2019–2023
Net exclusion of pension contributions and earnings	\$224.2	\$257.6	\$1,414
Defined benefit plans	\$84.8	\$96.5	\$553
Defined contribution plans	\$125.0	\$145.1	\$776
Keogh plans	\$14.4	\$16.0	\$85
Individual retirement accounts (IRAs)	\$25.9	\$27.1	\$145
Traditional IRAs	\$18.2	\$18.9	\$101
Roth IRAs	\$7.7	\$8.2	\$45
Credit for elective deferrals and IRA contributions	\$1.2	\$1.2	\$6
Total	\$251	\$286	\$1,565

Source: Joint Committee on Taxation. "Estimates of Federal Tax Expenditures for Fiscal Years 2019–2023," December 2019.

The 2017 Tax Cuts and Jobs Act modestly reduced the cost of these 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.

The White House Office of Management and Budget publishes tax-expenditure estimates for retirement

Key Elements of the U.S. Tax System

TAXES AND RETIREMENT SAVINGS

How large are the tax expenditures for retirement saving?

savings, calculated by the US Department of the Treasury's Office of Tax Analysis (OTA) in a similar fashion as the JCT. The OTA 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 2019



Plan Type	Present value of revenue loss
Employer plans	\$137.3
Defined benefit plans	\$36.3
Defined contribution plans	\$95.1
Self-employed plans	\$6.0
Individual retirement accounts (IRAs)	\$8.1
IRA contributions and earnings	\$2.3
Roth earnings and distributions	\$5.2
Nondeductible IRA earnings	\$0.6

Source: US Department of the Treasury. "Tax Expenditures - Fiscal Year 2021," February 2020.

Key Elements of the U.S. Tax System

TAXES AND RETIREMENT SAVINGS

How large are the tax expenditures for retirement saving?

Data Sources

Joint Committee on Taxation. 2019. [“Estimates of Federal Tax Expenditures For Fiscal Years 2019-2023.”](#) JCX-55-19. Washington, DC: Joint Committee on Taxation.

US Department of the Treasury, Office of Tax Analysis. [“Tax Expenditures.”](#) Table 4. “Present Value of Selected Tax Expenditures for Activity in Calendar Year 2019.”

Further Reading

Urban-Brookings Tax Policy Center. [“Tax Expenditures.”](#) January 2020.

Copyright © 2020. Tax Policy Center. All rights reserved. Permission is granted for reproduction of this file, with attribution to the Urban-Brookings Tax Policy Center.