Discussion of Ayuso, Jimeno, Villanueva The effects of the introduction of tax incentives on retirement savings

Tetyana Dubovyk

CeRP - Collegio Carlo Alberto

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Do people respond to tax incentives? _

- Many governments promote savings for retirement through tax incentives
 - ► This paper studies incentives introduced by Spanish government in 1988
- People do allocate their assets into tax-preferred financial instruments
 - Creation of new savings: 19 cents per euro contributed
 - Reshuffling of existing assets

Who contributes the most? _

• In accordance with life-cycle theory, people close to retirement and wealthy contribute the most

Table 3: Contribution to pension funds by ages 56-65, 1988-91

	Quantile of Labor Earnings		
	top	second	bottom half
Amount contributed, Euros	269	59	25
	Positive Contributions		
Percentage contributing, %	12.1	4.7	2.2
Contribution/taxable income, %	10.6	11.5	13.4
Exhausts limit, %	30.5	26.8	31.7

What form tax incentives should take? _____

- Features implemented in different countries:
 - Contribution limit dependable on labor earnings
 - Contributions are tax-exempt vs tax credit
 - ► Taxation of investment income, capital gains, and withdrawals
- This calls for international comparison

International Studies

- Based on study of IRAs in US, Engen and Gale (2000) and Benjamin (2003) find that creation of new savings is bigger for
 - moderate-income households
 - renters versus homeowners

Criteria for comparison? __

- Amount of new savings generated
- Tax cost of tax incentives, i.e., loss in tax revenue
- Effect on level and composition of retirement wealth