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

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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