

---

## Most tax benefits of private pensions go to high earners: GAO

---

By Editor Test      Tue, May 10, 2011

---

*The largest share of 401(k) assets is clustered in big accounts, and the highest-earning participants reap the most tax benefits, says a GAO study. The CEO of ASPPA, a plan administrator group, says the study is wrong.*

---

A recently released study by the Government Accounting Office that questions the effectiveness of tax policy toward retirement savings has caused some consternation among a few members of the private pension and 401(k) industry.

The study, "[Private Pensions: Some Key Features Lead to an Uneven Distribution of Benefits](#)," revives the controversy of whether the benefits of tax subsidies for saving through workplace retirement plans go disproportionately to higher-income individuals.

The study also questioned whether the tax subsidies or incentives—which theoretically cost the U.S. Treasury more than \$100 billion a year in uncollected taxes—are improving the nation's overall savings habits and retirement readiness.

Specifically, the report charged that raising the limits on tax-deferred contributions to DC plans (\$16,500 in 2011) doesn't incentivize middle income people to save more—it merely reduces the taxes of those who have surplus income and would save a lot anyway.

"For DC plans, a disproportionate share of these tax incentives accrues to higher income earners," the GAO said. "While 72% of those who make tax-deferred contributions at the maximum limit earned more than \$126,000 annually in 2007, less than 1% of those who earned less than \$52,000 annually were able to do so."

The GAO also pointed out that the tax-deferred retirement plan system reaches less than half of all workers: "In 2008, about 53% of private-sector wage and salary workers, aged 25-64, worked for employers that sponsored a retirement plan and about 44% participated in a plan."

With the federal government under pressure to close its budget gap, legislators and bureaucrats are examining the effectiveness of "tax expenditures" like the tax-deferral on savings to see which ones might be eliminated.

Ending tax-deferral would, of course, rock the foundation of the 401(k) world. And that world isn't happy with the GAO's report. Brian Graff, executive director/CEO of ASPPA, the American Society of Pension Professionals and Actuaries, said in a press release that the report's findings are wrong.

"Simply put, the facts say otherwise," Graff said in a release. "Based on the [IRS' own data](#) 74% of workers participating in defined contribution plans come from households making less than \$100,000. Only five percent come from households making more than \$200,000.

“When you measure who gets the tax benefits from these plans, the impact on moderate income workers becomes clearer. Households making less than \$50,000 pay only eight percent of all income taxes, but receive 30% of all the tax incentives associated with defined contributed plans. ([IRS Tax Distribution Data](#))

“In other words, for every dollar of income taxes paid by these workers they get almost four dollars back in tax incentives for these plans. That’s a good deal by any measure, and it shows that these tax incentives are effectively and efficiently targeted at low and moderate income families. The reason is these plans are subject to stringent nondiscrimination rules that are a part of the tax code and were designed by Congress to make sure these plans provide benefits fairly to everyone.

401(k) plans have proven to be incredibly successful at getting moderate income workers to save.

“According to the [Employee Benefits Research Institute](#), over 70% of workers making between \$30,000 and \$50,000 save when covered by a workplace savings program, whereas less than 5 percent of those same workers save on their own when not covered by a plan. Of course, more does need to be done to expand retirement plan coverage, which is why ASPPA supports proposals, like the [Auto-IRA](#) proposal in the President’s budget that would give more workers access to these plans.”

At the end of 2008, according to Employee Benefit Research Institute data, roughly half of about \$1 trillion in 401(k) assets was concentrated among the three million of the 24 million participants with the largest accounts. More than 45% of all accounts had balances under \$10,000, the average balance was \$45,519, and the median balance was just \$12,655.