

Influential Book on Who Benefits from the US Retirement System Published in Japanese

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JITA, ICI Team Up to Offer Japanese Policymakers Key Research on How Individuals Save for Retirement

Tokyo, Japan; February 6, 2020—The Japanese Investment Trusts Association (JITA) hosted a seminar today to launch a Japanese-language edition of a book written by Investment Company Institute (ICI) Senior Economic Adviser Peter J. Brady, which illustrates how the US Social Security system and retirement tax incentives combine to benefit all working Americans. The book, *How America Supports Retirement: Challenging the Conventional Wisdom on Who Benefits*, also dispels myths about tax deferral, a critical component of the voluntary employer-sponsored retirement plan system in the United States.

“I’m excited about the interest this research continues to garner around the world,” said Brady of the book, which is also available in Mandarin. “While my initial target audience was the US policy community, I believe many aspects of the analysis are generalizable outside the United States. For example, the book illustrates for policymakers how tax deferral affects tax liability—not just in a single year, but over a worker’s lifetime—and argues that tax deferral makes the US tax system fairer. It also explains the drawbacks of prominent proposals to replace tax deferral with alternative tax incentives. I want to thank JITA for introducing my work to Japanese policymakers.”

“This book provides valuable insights for the policy discussion in Japan, particularly because the US and Japanese retirement systems are so similar,” said JITA Head of International Affairs Yotaro Takahara, who translated the book. “Both countries have mandatory pensions with progressive benefit formulas. And both countries allow employers to offer plans to supplement the mandatory pension. We’re honored to help bring this work to Japan and look forward to continuing our partnership with ICI in the future.”

Brady's book builds upon ICI's long history of analysis and research on retirement and savings. Through ICI's international program, ICI Global, the US trade association advocates for stronger retirement savings systems in jurisdictions around the world.

Key findings from Brady's work include:

- When evaluating the US retirement system, it is important to assess both the Social Security system and tax deferral. In combination, the benefits of the two programs are progressive. In other words, lower-earning workers derive more benefit, as a percentage of lifetime income, from the government's support for retirement through these two channels than do higher-earning workers.
- Policy discussions of tax deferral often focus on the up-front reduction in taxes enjoyed by workers and ignore the higher taxes these workers will pay during retirement. Contributions to retirement plans are tax-deferred, not tax-free. For higher-earning workers analyzed in this study, increased taxes in retirement offset more than half of the reduction in taxes while working.
- Contrary to conventional wisdom, the marginal benefits of tax deferral (the benefits of deferring an additional \$1 of compensation) are higher, on average, for the lower-earning workers analyzed in this study than they are for higher-earning workers.
- The benefits of tax deferral increase with lifetime earnings because of the design of the Social Security system, not because of the design of the income tax.
- Tax deferral does not create an "upside down" incentive to save. Normal income tax treatment discourages saving by taxing investment returns. Tax deferral equalizes the incentive to save by effectively taxing investment returns at a zero rate for all workers.
- The most prominent tax reform proposals to limit up-front deferral benefits would make the tax code less fair and more complex.

How America Supports Retirement is available at www.ici.org/whobenefits.

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