Introduction

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The goal of the annual NBER Tax Policy and the Economy conference is to promote the communication of current academic research findings in the areas of taxation and government spending to policy analysts in government and the private sector. Research papers for the conference are selected for their immediate bearing on policy debates as well as for their contribution to broad questions of longer-term interest.

The papers in this year’s volume address a range of topics. Two examine issues related to saving through tax-deferred retirement saving programs. One explores the choices consumers make in high-deductible “consumer-driven health plans,” and another uses the insights of both optimal tax theory and behavioral economics to investigate how the financial aid application process could be simplified and linked more closely to the tax-filing process. The final paper reports on recent developments concerning corporate income tax reform in the European Union and considers potential implications for the United States.

The first paper, by Gene Amromin, is “Precautionary Savings Motives and Tax Efficiency of Household Portfolios: An Empirical Analysis.” The paper provides new evidence on households’ asset allocation decisions in tax-deferred retirement saving plans. It focuses on the extent to which households hold heavily taxed assets in their tax-deferred accounts and lightly taxed assets in their taxable accounts. Many households appear to violate this simple strategy for achieving tax-efficient allocations. Amromin’s research asks why this happens. His paper suggests that households are more likely to hold more liquid assets, which often are highly taxed, in their taxable accounts when they face greater risk of needing to draw down assets in a period of financial stress. The risk of job loss, which is modeled as a function of the household’s education and occupation, helps predict the degree of tax efficiency in retirement saving investments. These findings suggest that
withdrawal penalties on retirement saving plans may affect the way assets in these plans are invested.

The second paper, which I wrote with Steven Venti and David Wise, is also concerned with tax-deferred saving. “New Estimates of the Future Path of 401(k) Assets” uses historical information on the diffusion of 401(k) eligibility in the workforce and on contribution patterns to 401(k)s to forecast how the value of assets in 401(k) plans will evolve over the next three decades. The projections are subject to substantial uncertainty, but the paper shows that the future path of 401(k) assets will depend on a number of factors, including the level of contributions to these plans, the trajectory of aggregate earnings growth, the rate at which 401(k) plans diffuse to employers that do not currently offer these plans, the asset-allocation pattern chosen by 401(k) plan participants, and the rates of return earned by stocks and bonds. The paper explains that because future retirees will have the opportunity to participate in 401(k) plans for a larger fraction of their working career than current retirees, all else equal, the balances in these plans for future retirees will be substantially larger than the balances of current retirees.

The third paper, Steven Parente and Roger Feldman’s “Do HSA Choices Interact with Retirement Savings Decisions?” presents new evidence on the way access to Health Saving Accounts (HSAs) affects household behavior. The paper asks whether households with access to HSAs alter their contributions to other retirement saving programs, such as 401(k) accounts. It examines employee records from a large employer and finds suggestive, but not dispositive, evidence of substitution between contributions to HSAs and retirement saving plans. The paper suggests that for analyzing the revenue effect of HSAs, it may be important to consider interactions between contributions to HSAs and other tax-deferred accounts.

The fourth paper, by Susan Dynarski and Judith Scott-Clayton, “Complexity and Targeting in Federal Student Aid: A Quantitative Analysis,” is an innovative application of principles of tax design to the problem of college financial aid determination. The cornerstone of the current financial aid system for college students is information that applicants provide on the Free Application for Federal Student Aid (FAFSA). This form is longer than most tax forms. It includes many data items that are also included on a household’s tax return, as well as other financial information. Dynarski and Scott-Clayton suggest that the complexity of this form discourages some potential aid recipients from applying for and ultimately receiving aid. They consider how limiting the
information on FAFSA to information on income tax returns, which would make it possible for applicants to simply submit their family tax return as part of their financial aid application, would affect the targeting of financial aid benefits. The paper highlights an important trade-off between the efficiency of targeting particularly deserving groups and the complexity of the application process.

The last paper, by Charles McLure, is “Harmonizing Corporate Income Taxes in the European Community: Rationale and Implications.” This paper presents a comprehensive review of the current corporate income tax reforms that are being discussed in the European Union. These reforms have potentially important implications both for U.S. companies that operate in Europe and for policymakers who are concerned with the tax incentives that are created by the interaction of corporate tax systems in different nations. While policy debate in Europe is ongoing, this paper provides a detailed guide to the implications of various potential reforms.

Each of these papers offers background research for policy analysis, but none makes recommendations about the merits or demerits of particular policy options. They will hopefully provide a valuable basis for both near-term and long-term policy discussions.