



# AGENDA

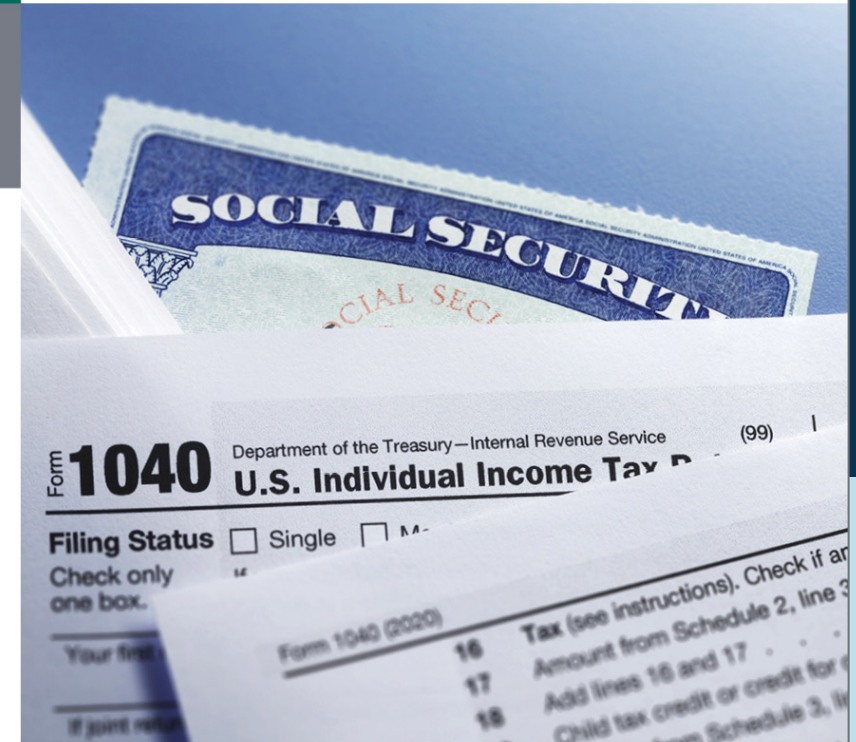
01. Introductions

02. Research Review

03. Q&A

## THE MISSING MIDDLE

HOW TAX INCENTIVES FOR  
RETIREMENT SAVINGS LEAVE  
MIDDLE-CLASS FAMILIES BEHIND



# Logistics

- Attendees in listen only mode.
- Questions are welcome. Submit using “Question” function on control panel
- Audio/technical issues during webinar: call GoToWebinar at 1-800-263-6316
- Webinar replay and slides will be posted at [nirsonline.org/reports/missingmiddle/](http://nirsonline.org/reports/missingmiddle/)



# SPEAKERS



**Dan Doonan**

NIRS Executive Director and Report Co-Author



**Tyler Bond**

NIRS Research Manager and Report Co-Author



# Key Findings

- **The current retirement saving structure suffers from a missing middle:** Social Security income replacement levels fall off far more quickly than private savings fill the gap for middle-class workers.
- **Tax expenditures for various retirement programs are heavily skewed toward high-income earners.**
- **The value of tax incentives for saving is much greater for those at higher income levels,** who face higher marginal tax rates.
- **Tax expenditures for retirement saving, oriented around the defined contribution system, give rise to inequities beyond income and wealth.** Geographic and racial inequities emerge, as income levels drive the value of tax incentives.

# Key Findings

- **Solutions to these inequities should focus on increasing participation in the retirement savings system and ensuring working families receive adequate incentives to save.**
  - Build upon Social Security, either through benefit changes or allowing the program to integrate lifetime income options for savers.
  - Increase access and participation in savings plans, which some states are doing for workers who lack workplace plans
  - Reform the tax expenditures themselves, for example, by eliminating the deduction-based system and replacing it with a refundable credit

# Tax Incentives Cover a Variety of Plans

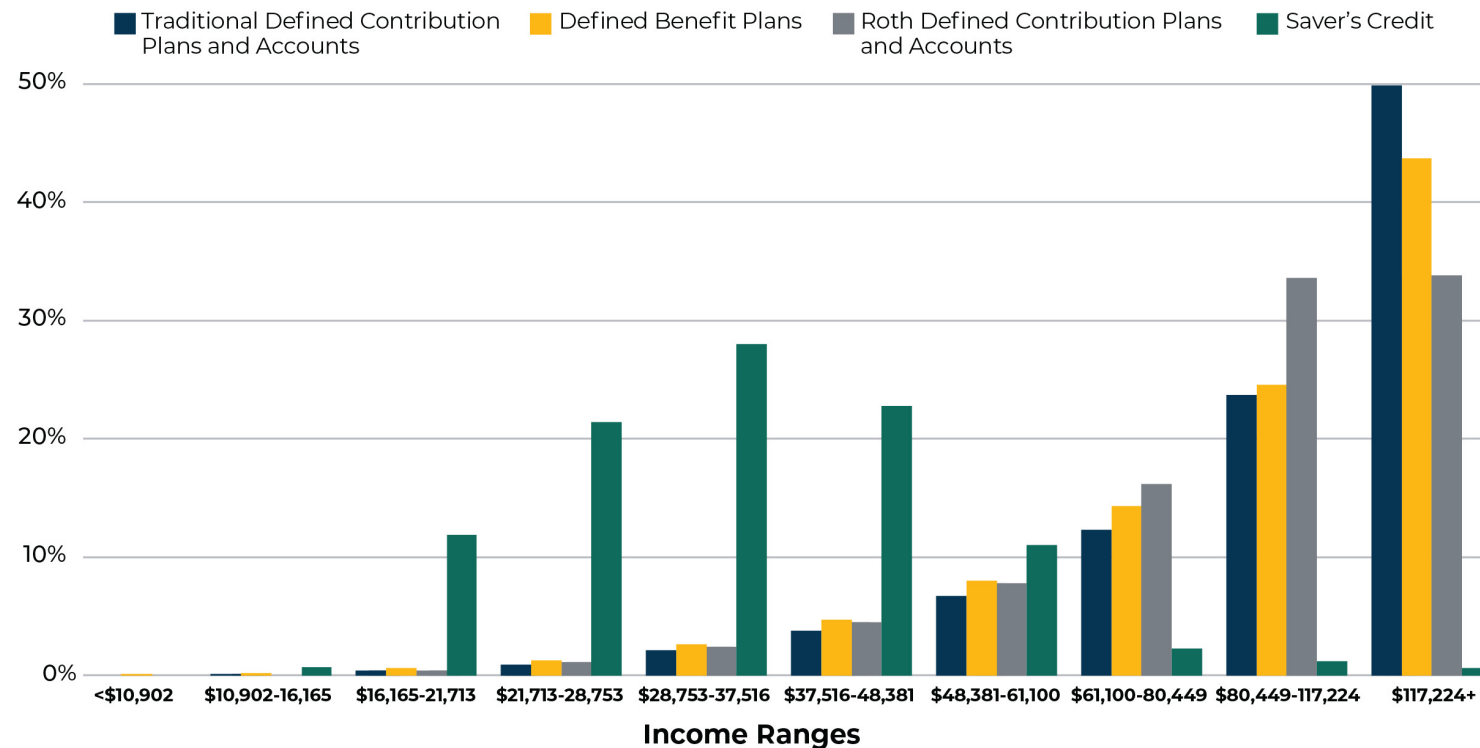
**Table 1: List of Federal Retirement Tax Expenditures**

---

- Partial Exclusion of Social Security Benefits
  - Net exclusion of pension contributions and earnings:
    - Defined benefit plans
    - Defined contribution plans
    - Individual Retirement Accounts (IRAs)
    - Self-Employed Plans
  - Saver's Credit
-

# Much of the Value Accrues to Upper-Income Households

**Figure 2: Share of Retirement Tax Expenditures by Income Deciles and Program (2017)**



\* Data from Distribution of Selected Tax Expenditures, Treasury Department and authors' calculations. Deciles are based upon cash income adjusted for family size, as follows: "Families are placed into deciles based on cash income adjusted for family size, by dividing income by the square root of family size."



# Federal Income Taxes Are Divided into Seven Brackets

**Table 2: Federal Income Tax Brackets (2022)**

MARRIED FILING JOINTLY		SINGLE FILERS	
Tax Rate	Taxable Income Bracket	Tax Rate	Taxable Income Bracket
10%	\$0 to \$20,550	10%	\$0 to \$10,275
12%	\$20,551 to \$83,550	12%	\$10,276 to \$41,775
22%	\$83,551 to \$178,150	22%	\$41,776 to \$89,075
24%	\$178,151 to \$340,100	24%	\$89,076 to \$170,050
32%	\$340,101 to \$431,900	32%	\$170,051 to \$215,950
35%	\$431,901 to \$647,850	35%	\$215,951 to \$539,900
37%	\$647,851 or more	37%	\$539,901 or more

# Marginal Tax Rates Affect the Value of the Tax Deferral for Retirement Saving

**Table 3:** Marginal Tax Rates for Married Filing Jointly (2022)

Marginal Tax Rate/Savings Match	Standard Deduction	Household Income Taxed at Each Marginal Rate	Income Level to Reach Each Marginal Tax Bracket	Tax Deferral per \$100 Saved at each Top Marginal Rate
0%	\$25,900	First \$25,900 not taxable	N/A	N/A
10%	\$25,900	\$25,901-\$46,450	\$25,901	\$10
12%	\$25,900	\$46,451-\$109,450	\$46,451	\$12
22%	\$25,900	\$109,451-\$204,050	\$109,451	\$22
24%	\$25,900	\$204,051-\$366,000	\$204,051	\$24
32%	\$25,900	\$366,001-\$457,800	\$366,001	\$32
35%	\$25,900	\$457,801-\$673,750	\$457,801	\$35
37%	\$25,900	\$673,751+	\$673,751	\$37

# Effective Tax Rates Are Lower Than Marginal Tax Rates

**Table 4:** Illustration of Marginal vs. Effective Tax Rates

FOR A FAMILY MAKING \$130,000 AND TAKING THE STANDARD DEDUCTION:			
Income Bands	Marginal Tax Rates	Income Taxed at Each Rate	Taxes Owed
First \$25,900 income	0%	\$25,900	\$0
\$25,901-\$46,450	10%	20,550	2,055
\$46,451-\$109,450	12%	63,000	7,560
\$109,451-\$130,000	22%	20,550	4,521
Total		\$130,000	\$14,136
Effective Tax Rate (Taxes / Income):			10.9%
Marginal Tax Rate (Rate on the next dollar of income):			22%

\* Tax Savings in year contribution is made to 401(k) or IRA are based on Marginal Tax Rate, as contributions reduce taxable income. In this case, it would reduce the dollars taxed at the 22% marginal rate.

# Immediate Tax Benefits Vary Depending on Income and Marginal Tax Rates

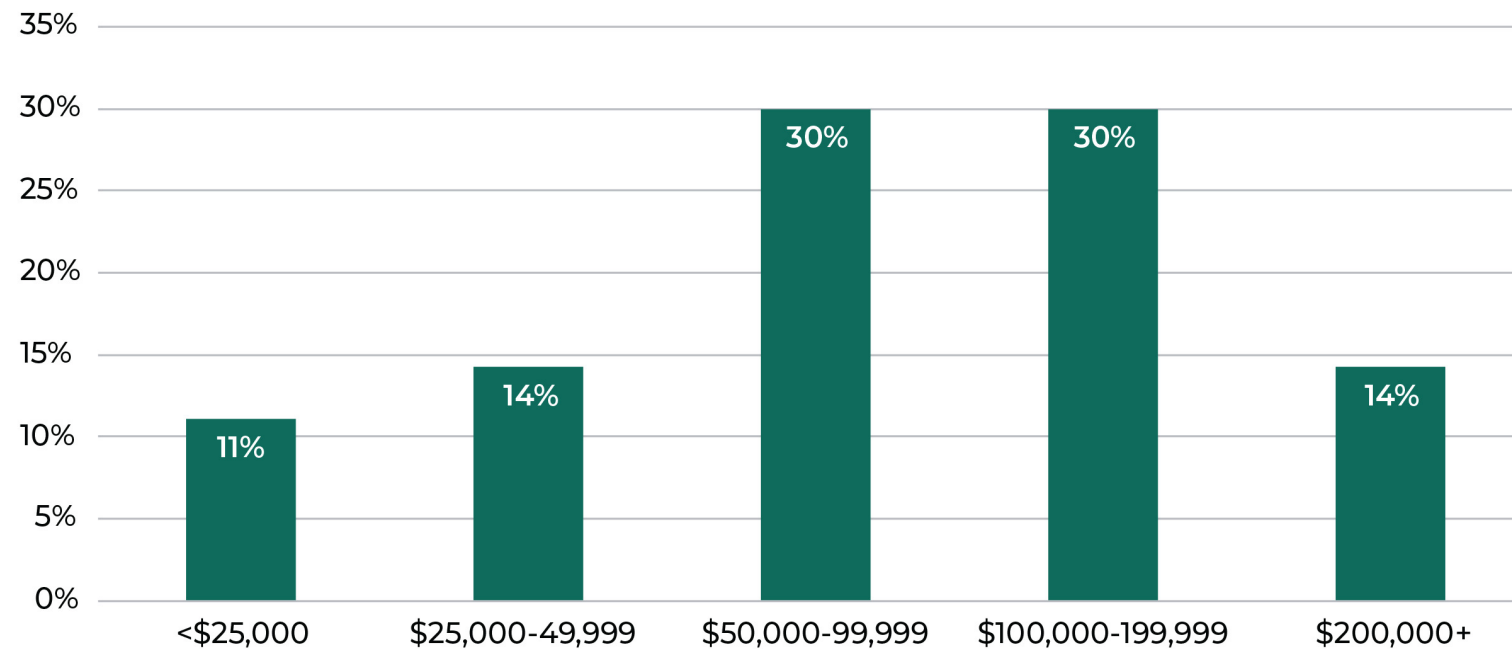
**Table 5: Illustration of Immediate Tax Benefits for Families at Various Income Levels**

	Family A	Family B	Family C	Family D
Wages	\$25,000	\$50,000	\$150,000	\$500,000
Contribution Rate	3%	6%	12%	8.2%*
Contribution	\$750	\$3,000	\$18,000	\$41,000*
Marginal Tax Rate	0%	12%	22%	35%
Tax Savings	\$0	\$360	\$3,960	\$14,350
Savings as % of Income	0%	0.72%	2.64%	2.87%

\*Pre-tax contributions capped at \$20,500 in 2022, but those over 50 are allowed to contribute an additional \$6,500 in catch up contributions. Family D represents a two-income couple where both are maxing out their 401k contributions, but not making catch-up contributions. After age 50, total contributions could reach \$54,000 which would push tax savings to \$18,900.

# Most Married Tax Filers Have Less Than \$100,000 in Income

**Figure 3: Married Tax Filers by Adjusted Gross Income**



\*Data from IRS Statistics of Income, Table 1.2. All Returns: Adjusted Gross Income, Deductions, and Tax Items, by Size of Adjusted Gross Income and by Filing Status, Tax Year 2019 (Filing Year 2020)

# Single Tax Filers Are Affected by Marginal Tax Rates As Well

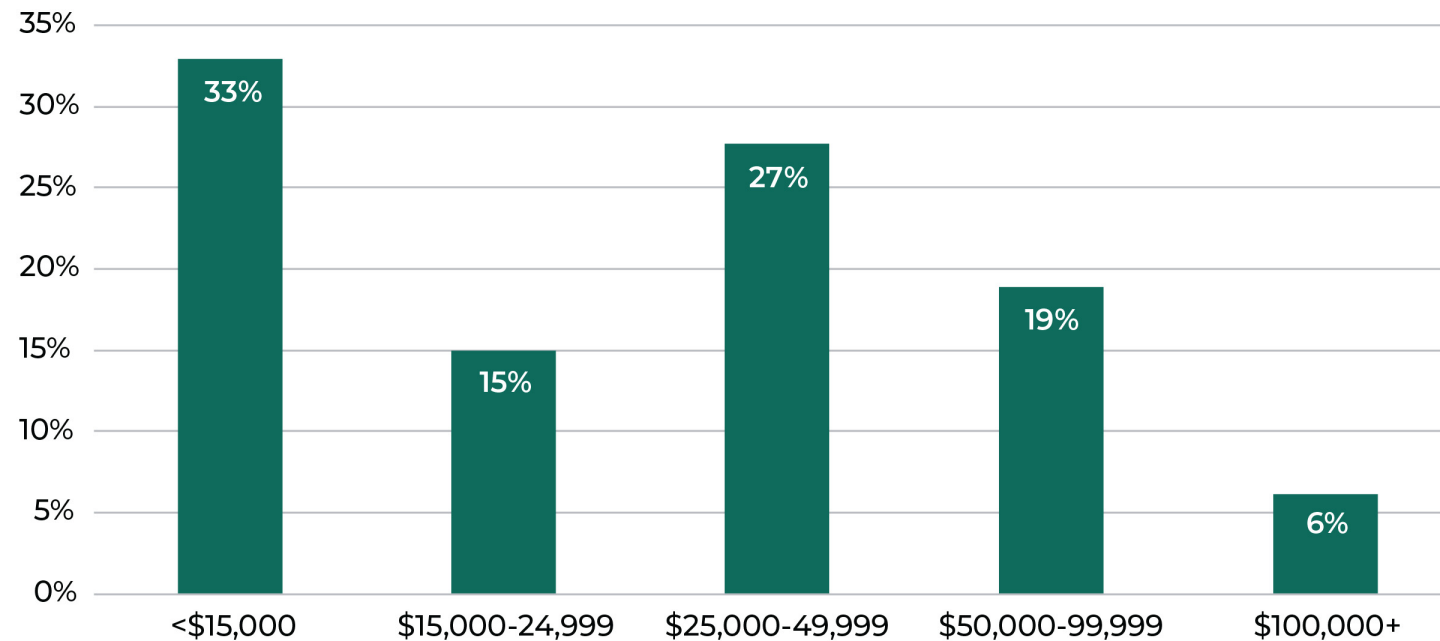
**Table 7: Marginal Tax Rates for Single Filers (2022)**

Marginal Tax Rate/Savings Match	Standard Deduction	Household Income Taxed at Each Marginal Rate	Income Level to Reach Each Marginal Tax Bracket	Tax Deferral per \$100 Saved at each Top Marginal Rate
0%	\$12,950	First \$12,950 not taxable	N/A	N/A
10%	\$12,950	\$12,951-\$23,225	\$12,951	\$10
12%	\$12,950	\$23,226-\$54,725	\$23,226	\$12
22%	\$12,950	\$54,726-\$102,025	\$54,726	\$22
24%	\$12,950	\$102,026-\$183,000	\$102,026	\$24
32%	\$12,950	\$183,001-\$228,900	\$183,001	\$32
35%	\$12,950	\$228,901-\$552,850	\$228,901	\$35
37%	\$12,950	\$552,851+	\$552,851	\$37



# Most Single Tax Filers Have Less Than \$50,000 in Income

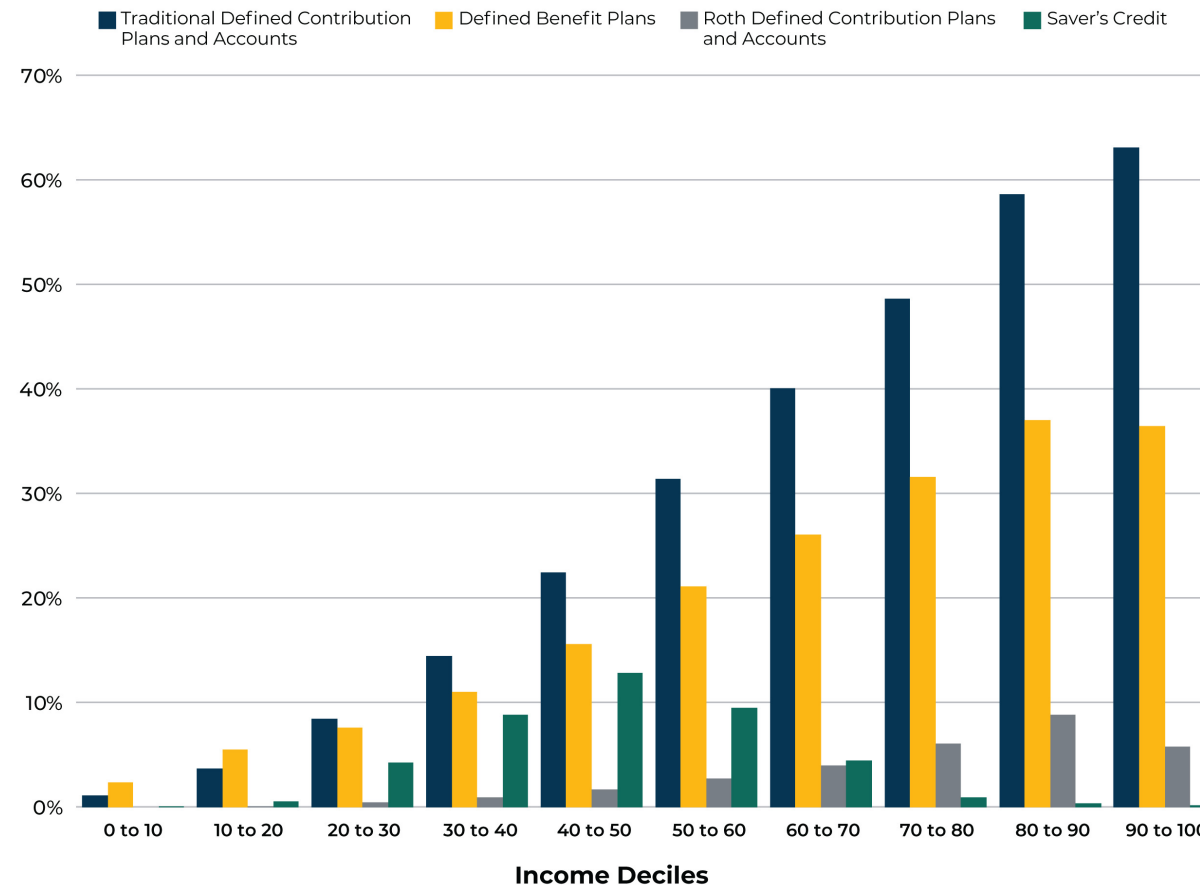
**Figure 4:** Single Tax Filers by Adjusted Gross Income



\*Data from IRS Statistics of Income, Table 1.2. All Returns: Adjusted Gross Income, Deductions, and Tax Items, by Size of Adjusted Gross Income and by Filing Status, Tax Year 2019 (Filing Year 2020)

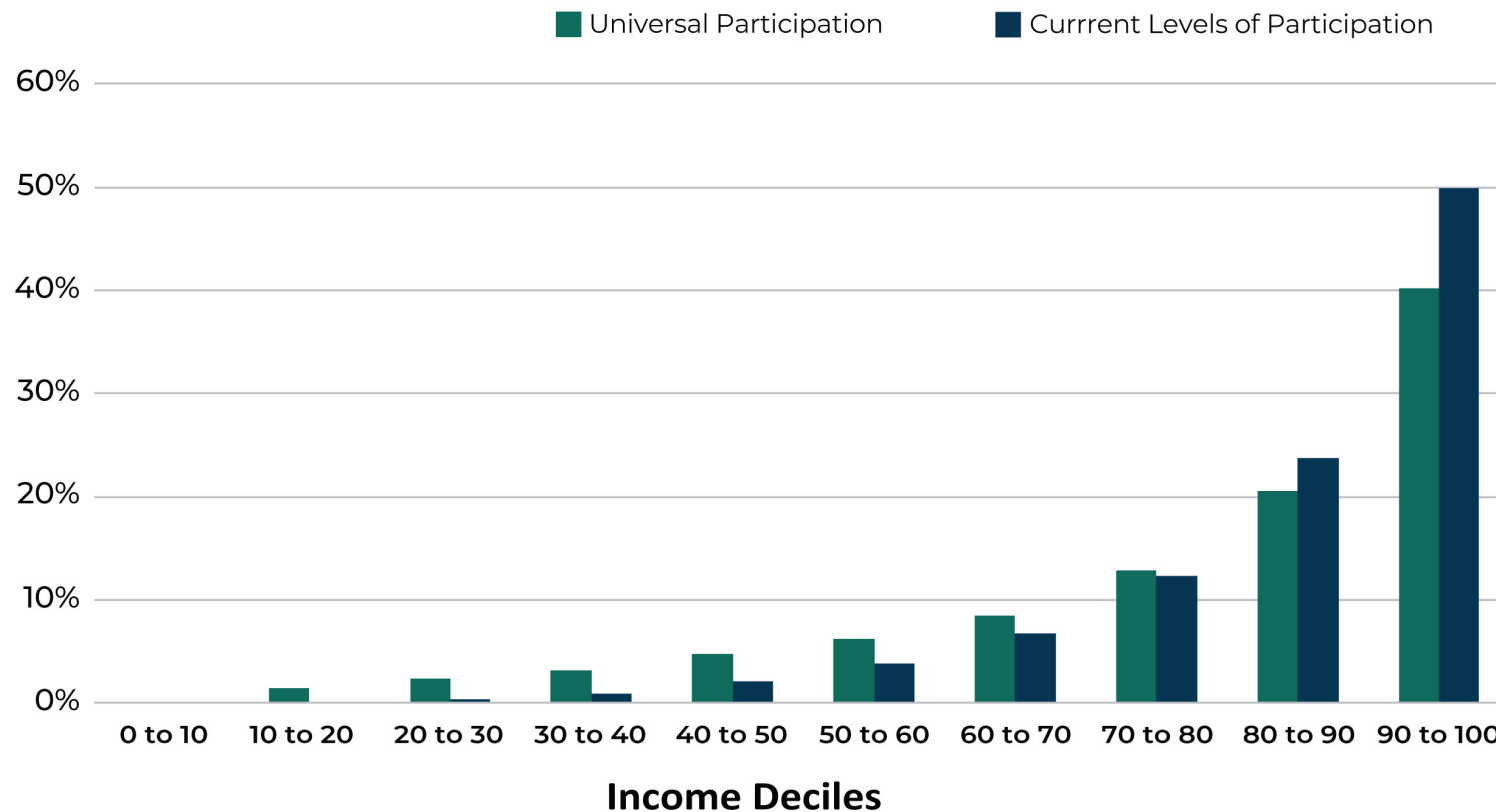
# More Upper-Income Households Receive Tax Benefits for Retirement Saving

**Figure 5: Percent of Families Receiving Tax Benefits for Retirement Savings (2017)**



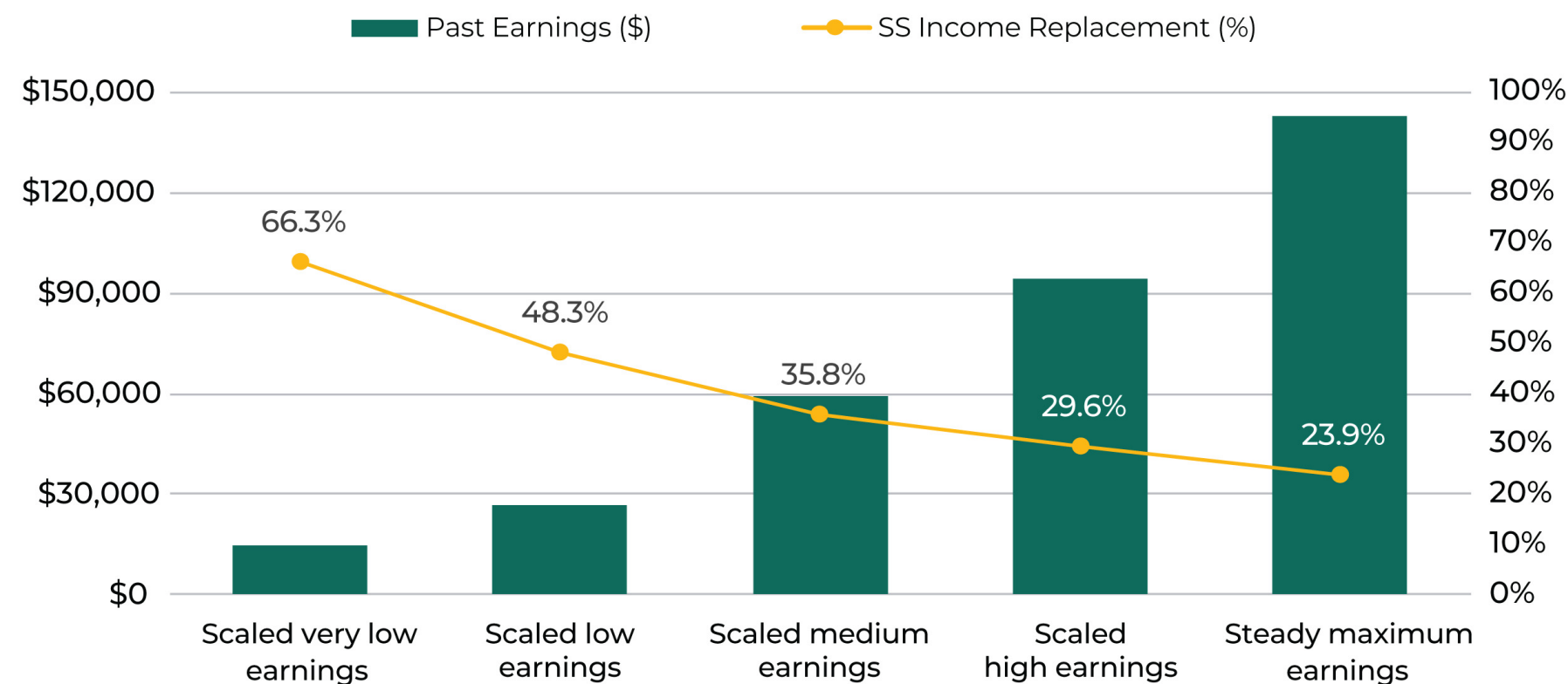
# Universal Participation in Retirement Plans Would Have an Effect

**Figure 6: Distribution of DC Tax Incentives: Current Rates of Participation vs. Universal Participation**



# Social Security Replacement Rates Drop Off Quickly

**Figure 8: Social Security Replacement Rates at Various Income Levels**



# Spending on the Saver's Credit is Much Lower than on Other Tax Expenditures

**Figure 7: Annual Amounts Spent on Retirement Tax Expenditures** (\$'s in Billions)



# There Are Sharp Income Cliffs in the Saver's Credit

**Table 9: Saver's Credit Income Limits (2022)**

Credit Rate	Married Filing Jointly	Head of Household	All Other Filers*
50% of your contribution	AGI not more than \$41,000	AGI not more than \$30,750	AGI not more than \$20,500
20% of your contribution	\$41,001- \$44,000	\$30,751 - \$33,000	\$20,501 - \$22,000
10% of your contribution	\$44,001 - \$68,000	\$33,001 - \$51,000	\$22,001 - \$34,000
0% of your contribution	more than \$68,000	more than \$51,000	more than \$34,000

\*Single, married filing separately, or qualifying widow(er)



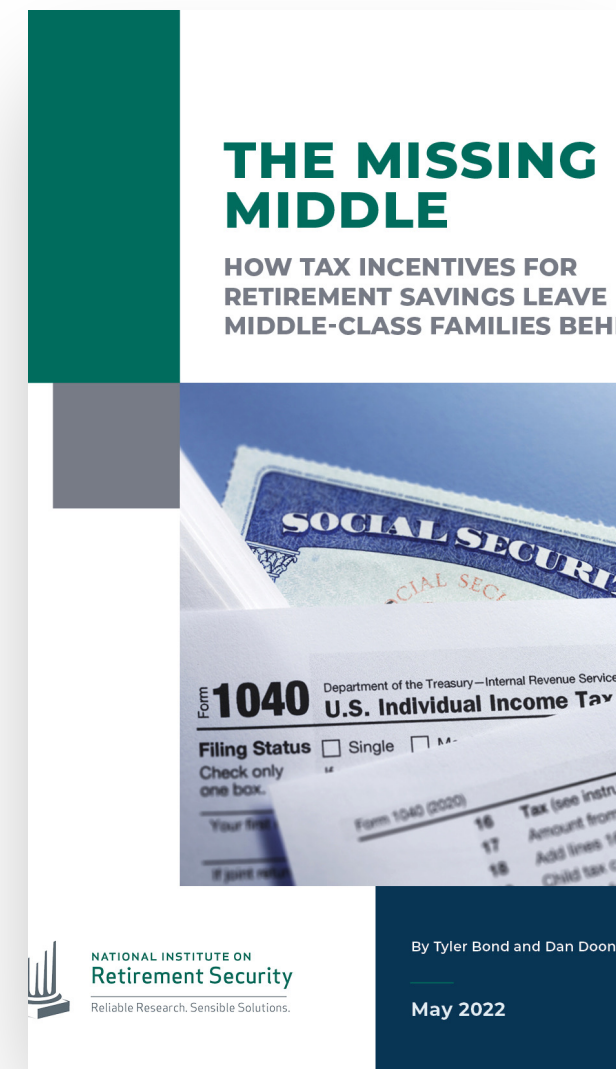
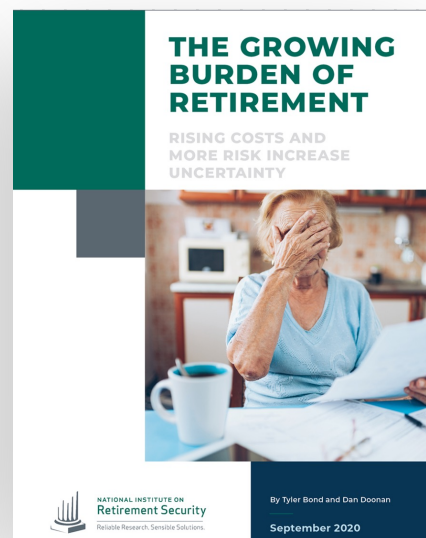
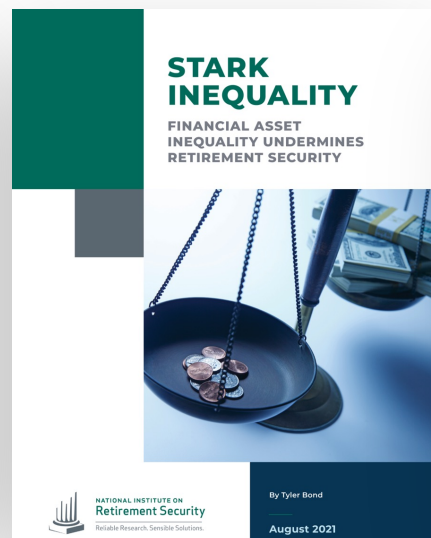
# Solutions

- Strengthening and expanding Social Security
- Expanding access to workplace savings plans for lower-income workers
- A Federal Retirement Saving Credit
- Higher Required Minimum Distributions (RMDs) unlikely to fix problems for middle class

# Questions



# CONNECT WITH US



 [www.nirsonline.org](http://www.nirsonline.org)  
 [@NIRSONline](https://twitter.com/NIRSONline)  
 [/NIRSResearch](https://www.facebook.com/NIRSResearch)