

employee benefit programs offered by the two sectors. This comparison, even though general, is not available elsewhere as far as this reviewer is aware.

For one who is unfamiliar with a specific topic concerning employee benefits, he/she could certainly not go wrong by first consulting this book. It provides a short, but authoritative, non-technical introductory exposition and bibliography from which one could continue to broaden his/her knowledge. As I take it, the above is the intention of EBRI in their publication series, and this book serves its purpose admirably.

One would not expect the bibliography to be exhaustive, which is the case; but the index is somewhat disappointing since it does not cover some minor benefits. Some of these minor benefits include discounts, parking, meals and rest periods, for example. Quibbles aside, the book is well-written, lucid and organized.

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An Economic Appraisal of Pension Tax Policy in the United States,
Richard Ippolito (Irwin, 1990)

Reviewer: Greg Niehaus, Associate Professor of Insurance and Finance,
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An Economic Appraisal of Pension Tax Policy in the United States is a well-written informative book on an important aspect of U.S. tax policy. The emphasis is on how pension tax policy affects individual and corporate decisions. For example, the influence of pension tax policy on consumption and savings choices, retirement decisions, the funding of corporate sponsored defined benefit pension plans, and the type of pension plans offered by corporations are all examined. The book provide both a positive analysis of how pension tax policy influences choices and also a normative analysis of how pension tax policy can be improved.

The central theme of the book is that tax policy should be neutral, i.e., pension policy should not distort individual or corporate decision making. Distortions are said to take place when individual savings decisions or retirement decisions differ from the decisions that would have been made in a world where consumption was taxed at the same rate irregardless of timing. Similarly, a neutral tax policy would not favor a defined contribution plan over a defined benefit plan or decrease corporate incentive to fund defined benefit plans.

For the most part, current pension tax policy is consistent with tax neutrality. Consumption during retirement that is financed through pension savings is taxed once. Further, assuming an individual's tax rate is the same before and after retirement, retirement consumption financed through a pension plan is taxed at the same rate as pre-retirement consumption. In contrast, retirement consumption that is financed from non-pension savings is taxed at a higher rate because it is taxed as income when it is earned and then the nominal returns on the savings are taxed as well. In other words,

the so-called preferential tax treatment that pension savings receives, while advantageous relative to non-pension savings, simply allows retirement consumption to be taxed at the same rate as pre-retirement consumption.

There are several aspects, however, of current pension policy which the book identifies as being non-neutral. For example, under a progressive tax structure, many individuals have a lower tax rate on pension income than on pre-retirement income. The book illustrates that this income tax smoothing causes people to save too much and to retire too early relative to savings and retirement decisions in a tax neutral world. These distortions should be eliminated, the author argues, by taxing pensions income at the same tax rate applicable during working years. A similar non-neutrality identified by the author arises because half of social security income is not taxed for lower income individuals.

In Chapter 3, the author argues that a major problem with current tax policy is that it gives a preference for firm sponsored pension plans, because individuals are limited in their ability to contribute to individual retirement accounts. This policy is especially inefficient since, by inducing individuals to entrust their retirement savings with the firms in which they work, there arises greater need for government regulation (i.e. ERISA). These regulations in turn cause additional distortions.

Overfunding of defined benefit pension plans is analyzed in Chapter 4. The ability to save through a pension plan at before-tax rates of return provides incentives for owners of corporations to overfund pension plans and later to withdraw the excess assets, either through reversions or through lower future contributions. This tax treatment "abuse" of pension plans was curtailed by funding limitations contained in the Omnibus Budget Reconciliation Act of 1987 (OBRA). These limitations, the author argues, are too restrictive in that they promote full funding of accrued pension liabilities, but not full funding of projected pension liabilities. For ongoing firms, the latter measure is a more appropriate measure of true pension liabilities. As a result, ongoing firms must shift funding to later years, reducing the present value of their tax deductions, thereby discouraging defined benefit plans. Alternative solutions to overfunding problem are presented in the book.

In conclusion, this is an interesting and important book. It provides a sound economic framework for analyzing current tax policy and for assessing potential policy changes. In addition, the author provides numerous recommendations for improving the current system. The book is must reading for anyone wanting to fully understand pensions. Although a book of this nature would be uncommon in an undergraduate or masters level course on employee benefits, it could (and probably should) be used in such a course, provided students have some background in microeconomics.

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