

Does It Pay to Save?¹

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Executive Summary

Does it pay to save? The answer is often no. In fact, penalties for saving are astronomical for some households, particularly young, single-parent and lower-income families. But these are the very people who need the strongest incentives to save for retirement.

Determining the effective marginal tax on additional saving is difficult because of the complexity of the tax code and the interaction of different government tax and transfer programs (such as food stamps) that are limited to households below certain income and asset ceilings. Saving and wealth accumulation can put a family over an asset limit and cost thousands of dollars in lost benefits.

To calculate the effective marginal tax on saving, this study uses financial planning software that carefully determines tax and transfer payments at each stage of a person's life, based in part on economic choices they make in prior periods. The model assumes people try to even out consumption over their lifetimes.

The results: For single parents with two children, effective marginal taxes on savings are regressive — lower-income households pay higher rates than high-income households. Furthermore, these households face the highest tax rates at younger ages:

- A 30-year-old single parent earning \$15,000 a year faces an effective marginal tax on saving of 260 percent; for each additional dollar saved, the parent loses \$2.60 in additional taxes and foregone government benefits.
- By contrast, if the same parent earned \$250,000, the marginal tax on saving would be only 31 percent.
- At age 45, a single parent earning \$10,000 a year faces an effective marginal tax on saving of 109 percent, compared to 39 percent for one earning \$250,000.
- A 60-year-old earning \$15,000 a year faces an effective marginal tax on saving of 41 percent, compared to 36 percent for one earning \$250,000.

In contrast to single parents, couples with two children face lower marginal taxes on saving from younger ages through middle age. However, among 60-year-old couples, those with modest incomes pay the highest marginal tax rates on saving. Overall:

- A 30-year-old couple with two children faces an effective marginal tax on savings ranging from 20.5 percent for a couple earning \$20,000 a year to 51.5 percent for those earning \$500,000 annually.
- Similarly, a 45-year-old couple faces effective marginal taxes ranging from 20.1 percent for a couple earning \$20,000 to 43.4 percent for one earning \$500,000.
- But among 60-year-old couples whose children have reached adulthood, households earning \$20,000 face the highest effective marginal tax rate (38.6 percent), while couples earning \$50,000 face a marginal tax of only 22 percent.

The U.S. fiscal system penalizes young, lower-income households that should be given incentives to save early in life. There is a federal tax incentive that provides a federal match of up to 50 cents for each dollar saved by a low- to moderate-income family. However, households with a zero or negative tax liability are ineligible for this Saver's Credit. This is one of the many ways that unrelated provisions of the tax and benefit systems interact to penalize even the most negligible savers.

Introduction

Does it pay to save? While the question appears simple, the answer is quite complicated. This is largely due to the complexity of the tax code and the interaction of different government tax and benefit systems that base eligibility on meeting certain income or asset tests. Income tests often withdraw \$1 of benefits for each additional \$1 of income above a specified income ceiling. Asset tests often withdraw *all* benefits if assets exceed the ceiling by \$1. As a result, saving and wealth accumulation can cost some households thousands of dollars in lost benefits.

Penalties for saving are particularly severe for young, single-parent and low-income families. But these are the very households that need the strongest incentives to save for their retirements.

Measuring Effective Marginal Taxes on Saving

While effective marginal tax rates on labor income have been researched extensively, there has been little research on saving.² An effective marginal tax rate on labor is the sum of taxes paid plus the reduction in government benefits that occurs when a dollar of income is earned. For example, many low-wage workers who pay no income taxes lose \$1 in benefits when they earn \$1. Thus, their effective marginal tax rate is 100 percent. For this reason, individuals on temporary assistance may have very little incentive to work. An additional dollar of saving works the same way through the asset tests required for some transfer programs.

Determining effective marginal net tax rates on saving requires taking into account effective marginal taxes plus all future transfer payments people might lose from saving. First, the calculations must include a host of federal personal income taxes, corporate income taxes, payroll taxes, and state taxes, as well as Social Security benefits and welfare benefits — including Temporary Assistance to Needy Families, Supplemental Security Income, Medicaid, food stamps and energy assistance. Second, how each of these taxes and transfers is calculated must be determined. Third, the interactions of the different tax and transfer programs must be analyzed. Finally, how taxes are paid and transfers received over time must be considered.

This study uses *ESPlanner*TM, a personal financial planning software program developed and marketed to the public by Economic Security Planning, Inc., to analyze the marginal tax levied on savers with different expected lifetime earnings. This software program determines a household's highest sustainable living standard and the saving and insurance needed to sustain it. In the process, the program makes highly detailed, year-by-year federal and state income tax and Social Security benefit calculations.

The gain (or loss) from extra saving can be measured by calculating how much current consumption a household must forgo in order to have the

“Saving an additional dollar can cost a family thousands of dollars in benefits.”

same amount of income (adjusted for inflation) available to consume at a later point in time. Consider, for example, an individual currently age 30 and the same individual at age 65. If there were no effective marginal taxes on saving, a 30-year-old reducing current consumption by \$100 in order to save for retirement would be able to increase consumption by \$100 (measured in present value) at age 65. If, however, at age 65, this individual has only an additional \$50 to consume, there is a 50 percent effective marginal tax on saving.

The simulations of households used in this study examine individuals who live for many years. When there is more than one period in which to consume — for example, spending saved income over 20 years of retirement — there is no standard definition of the effective tax on saving in the economics literature. Assumptions about the choices households make affect the results of the simulations. For example, how much a family that saves \$100 today will have to consume in the future depends on when and over what number of years the savings will be consumed. Different choices will generate different effective tax rates. This is because the interest earned by savings compounds over time, and (as discussed below) accumulating more than a minimum amount of saving can put a family over the asset limit for certain benefits. Thus, the longer the period over which a household allocates its saving, or the further into the future the consumption of that saving commences, the higher the effective tax rate will be.

Consistent with economic theory as well as actual behavior, the simulations used in this study assume that, other things equal, people will try to maintain their standard of living — or smooth their consumption — over their lifetimes, even though their wage income fluctuates. For example, a couple starting out with a modest income may borrow to buy a house or to pay education expenses for their children. At middle age, when their children have left the nest and their wages are higher, the couple may accumulate savings and pay down their mortgage. During their retirement years, they live on the savings accrued during their working years. [See the Appendix for more information on household characteristics.]

The Effects of Saving on Asset-Tested Benefits

Since households must meet an asset test to qualify for many assistance programs, putting an additional dollar of income into a regular savings account can render an individual completely ineligible for certain benefits. This “all or nothing” qualification penalizes even the most negligible savers. It is also important to note that the interest earned on savings is part of a household’s adjusted gross income. Thus, a household that is ineligible for a program with an asset test may also eventually be ineligible for an income-tested program that does not have an asset test, if the household’s interest income puts them over a maximum income limit.

Because eligibility requirements for benefit programs vary by state, calculations in this paper are based on rules for the Commonwealth of Mas-

“Effective marginal tax rates include taxes and lost government benefits.”

sachusetts in 2005. The benefit programs included are Transitional Aid to Families with Dependent Children, food stamps, Supplemental Security Income, Medicaid and the Saver's Credit. [See Table I for a summary.]

Transitional Aid to Families with Dependent Children (TAFDC). TAFDC, Massachusetts' Temporary Assistance to Needy Families (TANF) program, is a federal block grant to the states that provides cash assistance to low-income pregnant women living alone or to families with a dependent child. States are allowed some flexibility in determining eligibility and the length of benefit payments. In Massachusetts, benefits are limited to 24 months over a five-year period. TAFDC applicants must pass two income tests: 1) Gross income (including unearned income such as unemployment compensation or interest from a savings account) must not exceed 185 percent of the federal poverty level for a household, and 2) gross income minus certain deductions (such as dependent care deductions) must not exceed 100

"An individual with \$250 in savings isn't eligible for state emergency aid."

TABLE I

Asset Tests for Benefits (2005)

Benefit Program	Eligible Applicants*	Asset Test Limit for Singles	Asset Test Limit for Couples	Age Limits on Asset Test?
Transitional Aid to Families with Dependent Children (TAFDC)	Households with dependent children.	\$2,500	\$2,500	No
Food Stamps	Households with or without children.	\$2,000	\$2,000	No
Emergency Aid to Elders, Disabled and Children (EAEDC)	Households with needy children, elderly or disabled.	\$250	\$500	No
Supplemental Security Income (SSI)	Individuals who are age 65 or older, or those of any age who are blind or disabled.	\$2,000	\$3,000	No
Medicaid (MassHealth)	Households with pregnant women, infants, children or disabled persons.	\$0	\$0	Yes, over 65 years old and institutionalized individuals of any age**

* Various income tests apply.

** Asset limit is \$2,000 for singles and \$3,000 for couples.

Source: MassResources.org and the Social Security Administration.

“Each benefit program has its own asset limits.”

percent of the poverty level. The federal poverty level is the income required to purchase basic necessities such as food and shelter. It varies by family size and is adjusted for inflation.

Applicants must also pass an asset test; countable assets cannot be greater than \$2,500.³ The catch is that a savings account, retirement account and even the cash surrender value of a life insurance policy is a countable asset; thus, if a household saves an additional dollar of income beyond \$2,499, it becomes ineligible for TAFDC benefits. For example:

- If a family of three (adult with two children) has countable monthly income of \$500 and a savings account balance of \$2,499, they will receive the difference between the maximum monthly benefit and their income — \$133 a month.⁴
- However, if the family puts an additional dollar into their savings account, they fail the asset test and become ineligible for the \$133 a month; hence, their immediate effective marginal tax rate on an additional dollar of saving is 1,330 percent!

Food Stamps. The federal Food Stamp Program requires applicants to meet an income test (not to exceed 200 percent of the federal poverty level), and also requires some applicants to meet an asset test.⁵ There is no asset test for households with children under 19, for pregnant women, or for households that receive TAFDC, Supplemental Security Income or Emergency Aid to Elders, Disabled and Children (EAEDC). Households that do not fall into any of those categories must have countable assets of less than \$2,000 to qualify for food stamps.

Food stamp payments are determined by subtracting 30 percent of the household’s net monthly income (gross income after deductions) from the maximum monthly benefit for a particular family size. For example, a single woman who is not pregnant and has no children in the house under age 19 is eligible for a maximum monthly benefit of \$149:

- If her monthly net income is \$400 she is eligible to receive \$29 in food stamps.
- However, if her assets total \$1,999 and she saves an additional dollar, she loses the food stamp benefit; hence, her current marginal tax on saving from losing the food stamp benefit alone is 290 percent.

Supplemental Security Income (SSI). SSI is a federal assistance program for low-income individuals age 65 or older, or the blind or disabled of any age. SSI eligibility is subject to income and asset limits. After deductions, the monthly income limit (including unearned income such as unemployment benefits) is \$708 for a single person and \$1,071 for a couple.⁶ The income limit is equal to the maximum benefit payment for a household and benefits

are determined by subtracting countable income from this maximum benefit level.⁷ Therefore, an additional dollar of income causes the household to lose a dollar in benefits. In addition, a single person must have less than \$2,000 in assets, while a married couple cannot have more than \$3,000.⁸

Emergency Aid to Elders, Disabled and Children (EAEDC).⁹

EAEDC is a Massachusetts program that provides cash assistance in addition to medical benefits.¹⁰ EAEDC benefits are available to the elderly, the disabled, and families with needy children who do not receive, or who are waiting to receive, other benefits such as SSI. EAEDC is also available to those who do not qualify for TAFDC due to family restrictions.¹¹ The asset limit is low, however — to qualify for this program, asset values must be less than \$250 for an individual or \$500 for a couple or family. Thus, for a couple, an additional dollar of savings can render them ineligible for up to \$395 (the maximum for a family of two) in monthly benefits.

Medicaid. Medicaid is a joint federal-state program that provides medical care to the poor. Each state establishes its own eligibility standards and general rules, but they are required to cover those with negligible incomes. Under the MassHealth Standard Program, coverage differs according to the characteristics of household members and monthly income before taxes and deductions. Households consisting of a pregnant woman and infant are covered if income does not exceed 200 percent of the federal poverty level; households with noninfant children less than 19 years old are eligible at 150 percent of poverty; and households that include parents and their children under age 19 qualify at 133 percent of poverty.

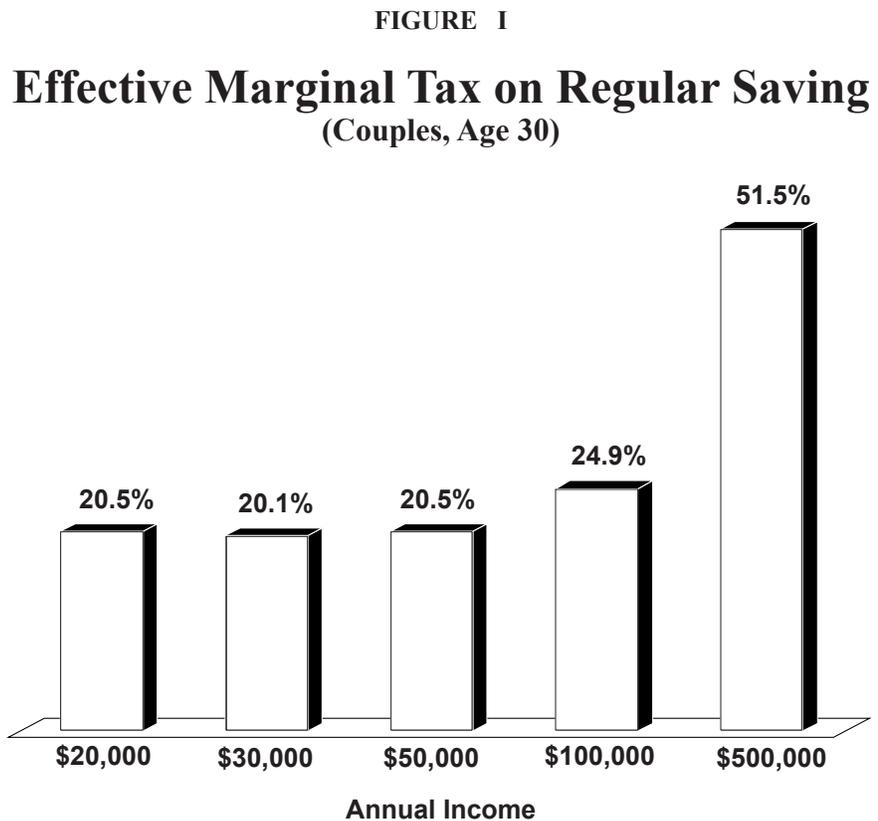
Medicaid does not have an asset test for individuals under age 65; however, there is an asset limit for individuals 65 and over, and for institutionalized individuals of any age. The assets counted include savings accounts, retirement accounts, pensions and annuities. Depending on the type of Medicaid plan available, countable asset limits range from \$2,000 to \$4,000 for an individual and from \$4,000 to \$6,000 for a couple.

Saver's Credit. The Saver's Credit is a federal program that is supposed to help low-income people save. But because of the complexity of the tax code and interactions with other benefit programs, few people actually qualify for the Saver's Credit. The program allows single households with adjusted gross incomes of less than \$25,000 and married households with adjusted gross incomes of less than \$50,000 to receive a match of up to 50 cents from the federal government for every dollar they contribute to a retirement plan, such as an IRA, 401(k), 403(b), SIMPLE, SEP or 457 plan.¹²

The problem with the Saver's Credit is that it is only available to households with a positive tax liability. Consider a 30-year-old couple with two children, earning a total household income of \$25,000 a year. When filing their 2005 tax return:

“Most low-income families can't get a tax credit that rewards saving.”

“The tax for young, low-income couples starts at a high level.”



Source: Authors' calculations.

- They qualify for the standard personal exemption (married filing jointly), plus child tax credits.
- As a result, they will owe no federal taxes, but will also be ineligible for the Saver's Credit.
- Even those with a minimal tax liability will benefit little from the Saver's Credit, compared to high-income couples who benefit substantially through tax-deferred savings plans.

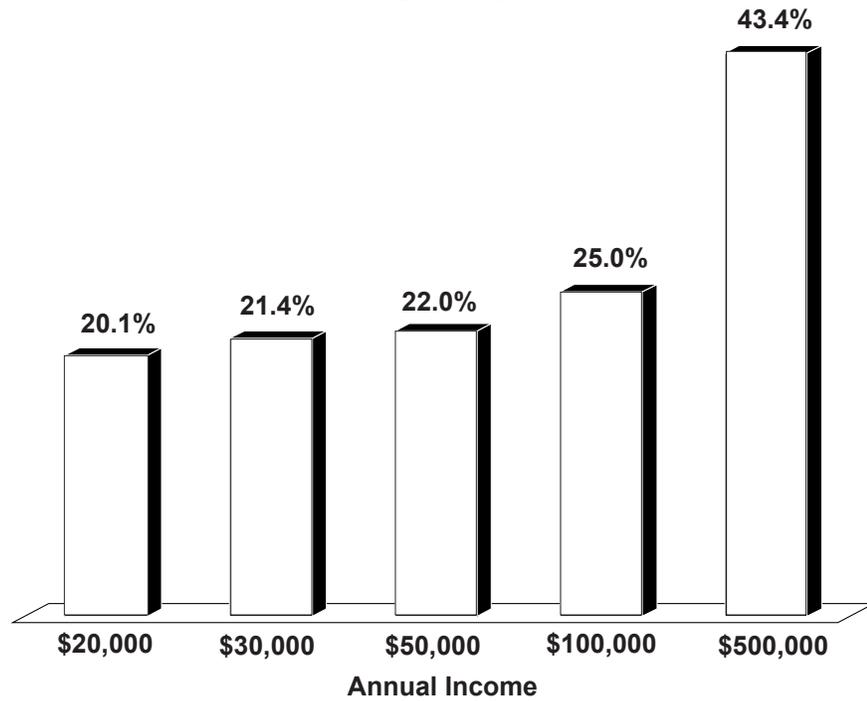
Due to their income, this couple could qualify for a tax credit of 50 cents for every dollar they contribute to savings, up to a maximum federal match of \$2,000 annually (depending on their tax liability). However, since their tax liability has been wiped out, they no longer qualify for the Saver's Credit.

Effective Marginal Taxes on Saving

ESPlanner[™] software was used to analyze how the various programs discussed above, in combination with federal and state income tax schedules and the payroll (FICA) tax, determine overall incentives to save. This analysis considers representative single-parent and same-age, married-couple households at various ages and income levels. Both household types are assumed

“Middle-age, middle-income couples face higher tax penalties.”

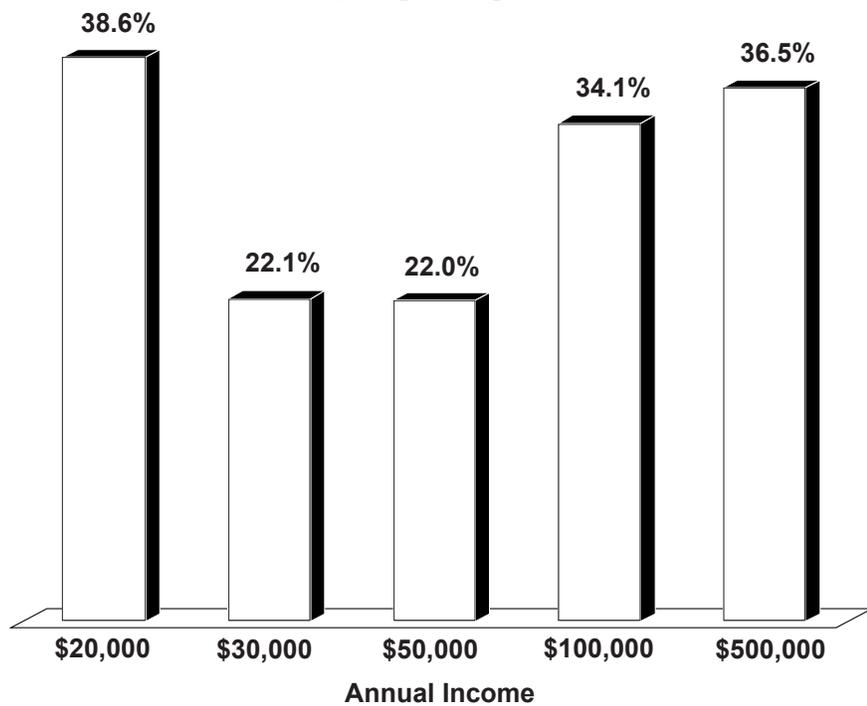
FIGURE II
Effective Marginal Tax on Regular Saving
 (Couples, Age 45)



Source: Authors' calculations.

“Low-income couples face the highest marginal taxes among 60-year-old couples.”

FIGURE III
Effective Marginal Tax on Regular Saving
 (Couples, Age 60)



Source: Authors' calculations.

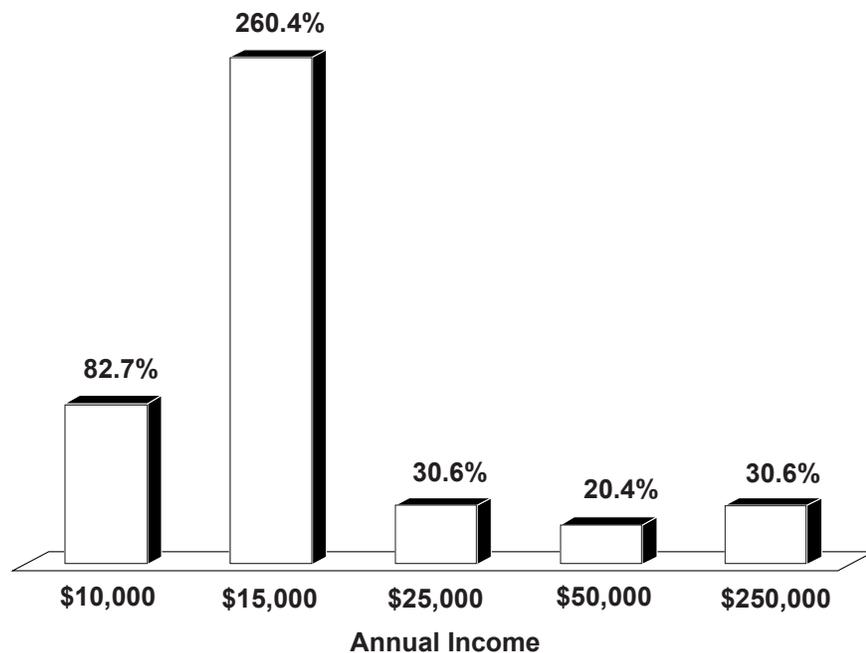
to have two children born when the parents were ages 27 and 29. The effective marginal tax on saving was measured by uniformly allocating a reduction in spending in 2005 to all future periods, such that consumption income in all future years is increased by the same percentage.

Couples with Children. For couples with children, effective marginal taxes on saving generally fall between 20 percent and 40 percent at most income levels. For young and middle-aged households, the effective marginal tax on saving rises with income. But for 60-year-old couples, the tax rate rises, falls and then rises again as income increases. Specifically:

- Effective marginal taxes on couples at age 30 range from 20.5 percent for households earning \$20,000 a year to 51.5 percent for those earning \$500,000. [See Figure I.]
- For 45-year-old couples, tax rates are also high, but progressive — ranging from 20.1 percent for couples earning \$20,000 a year to 43.4 percent for couples earning \$500,000. [See Figure II.]
- For 60-year-old couples, however, the highest marginal tax rate is 38.6 percent for a couple earning \$20,000, while those earning \$50,000 face only a 22 percent marginal tax. [See Figure III.]

“Young, low-income single parents face extraordinarily high marginal taxes!”

FIGURE IV
Effective Marginal Tax on Regular Saving
(Singles, Age 30)



Source: Authors' calculations.

“Single-parent households face much different tax rates than couples.”

Singles with Children. The effective marginal tax rates on regular savings for single-parent households are very different from those for couples. At higher incomes and at older ages, the rates range from around 20 percent to 40 percent. However, for very low-earning, young and middle-aged single parents, the rates are astronomical, reflecting the impact of various asset tests on transfer benefits. As Figure IV shows:

- A 30-year-old single parent earning \$10,000 a year faces an 82.7 percent effective marginal tax on an additional \$1 of saving.
- A 30-year-old single earning \$15,000 a year faces an effective marginal tax of 260 percent!

In both of these cases, low-income single households become ineligible for transfer benefits because their savings have surpassed the asset limit. Compare these low-income households to those with much higher incomes at the same age:

- A 30-year-old single parent earning \$100,000 faces only a 25.5 percent effective marginal tax on a dollar of saving, one-third the rate on the \$10,000-a-year single household.
- A 30-year-old single parent earning \$250,000 faces a 30.6 percent effective marginal tax on a dollar of saving, less than one-sixth the tax rate on the single household earning only \$15,000 a year!

This mishmash of regressive tax rates does not stop with the 30-year-old single. Similar comparisons can be made with 45-year-old singles [see Figure V]:

- For the lowest-income single parent, at \$10,000 a year, the effective marginal tax on an additional dollar of saving is almost 110 percent; but for a single earning just \$5,000 more (at \$15,000) the rate falls to less than 20 percent!
- For the single earning \$250,000 a year, the effective marginal tax rate (39.2 percent) is higher than the \$15,000-a-year earner, but still significantly lower than for the \$10,000-a-year earner.

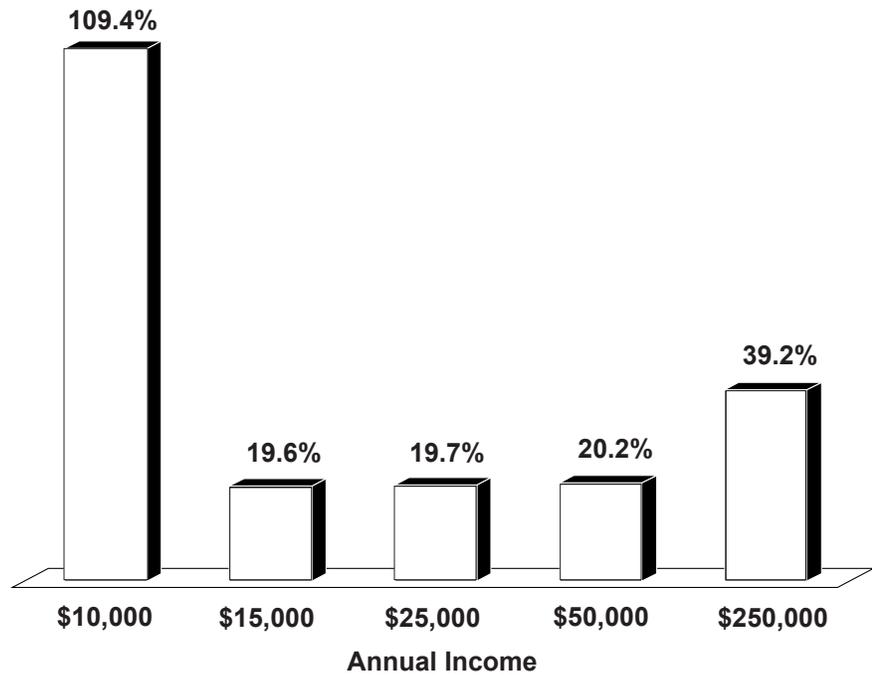
Compare low- and high-income single-parent households at age 60. Figure VI shows:

- A 60-year-old earning \$10,000 has the lowest effective marginal tax on saving (20.5 percent) of all the income levels at this age.
- However, the highest rate among 60-year-olds is 41.4 percent, which applies to the single earning only \$15,000 a year.
- By contrast, the rate for a single earning \$250,000 a year is 35.8 percent.

“Additional savings by some low-income singles are effectively taxed away.”

FIGURE V

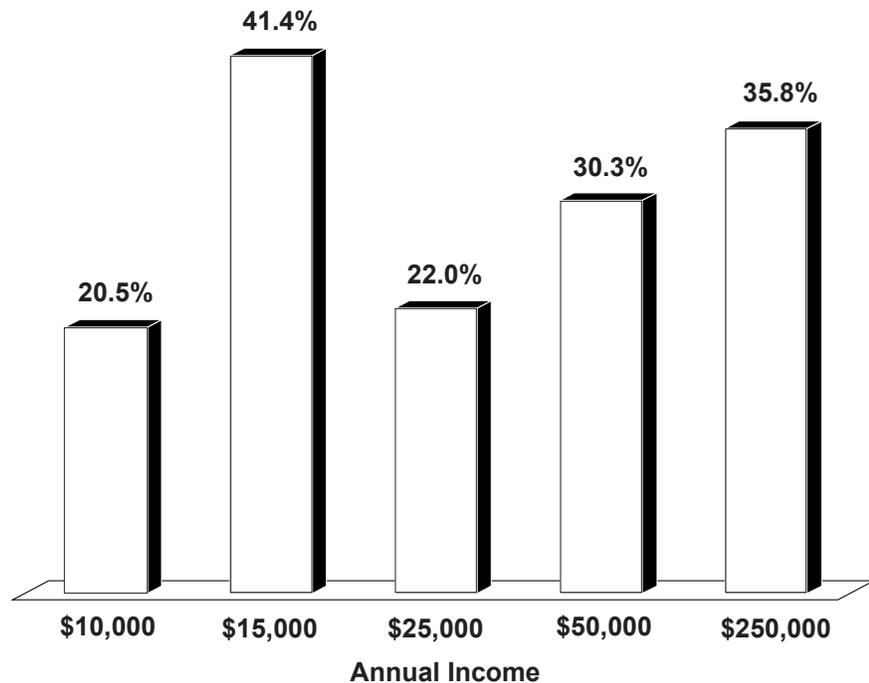
Effective Marginal Tax on Regular Saving (Singles, Age 45)



Source: Authors' calculations.

FIGURE VI

Effective Marginal Tax on Regular Saving (Singles, Age 60)



Source: Authors' calculations.

“Low-income singles face the highest marginal taxes among 60-year-olds.”

Again, these arbitrary rates are due to the fact that low-income singles begin losing transfer benefits as their savings surpass the asset-test limit.

Conclusion

Saving is an important way for families to build their own safety net, finance their own retirement and become less dependent on government benefits. Yet, the U.S. fiscal system provides most households with very strong reasons to limit their saving. Furthermore, the effective marginal tax rates on saving have no particular rhyme or reason; they penalize young, single-parent, lower-income households that should have an incentive to save early, while giving incentives to older, higher-income households to save later.

“The U.S. tax and benefit system penalizes many savers.”

NOTE: Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any bill before Congress.

Notes

- ¹ Based on the study by Laurence J. Kotlikoff and David S. Rapson, “Does It Pay, at the Margin, to Work and Save? Measuring Effective Marginal Taxes on Americans’ Labor Supply and Saving,” National Bureau of Economic Research, Working Paper No. 12533, December 2006; forthcoming in James M. Poterba, ed., *Tax Policy and the Economy*, Vol. 21 (Boston: MIT Press, 2007).
- ² For effective marginal taxes on labor, see Jagadeesh Gokhale, Laurence J. Kotlikoff and Alexi Sluchynsky, “Does It Pay to Work?” National Center for Policy Analysis, Policy Report No. 258, March 2003. Available at <http://www.ncpa.org/pub/st/st258/>.
- ³ Countable assets do not include one’s primary residence, the first \$10,000 of fair market value of a vehicle used as primary transportation, student grants or scholarships, household belongings (jewelry, furniture and so forth) and food stamps.
- ⁴ Calculations based on Jocelyn Bauduy and Christine Somogyi, “Transitional Aid to Families with Dependent Children (TAFDC): Financial Eligibility Requirements,” MassResources.org. Available at <http://www.massresources.org/pages.cfm?contentID=17&pageID=4%20&subpages=yes&SecondLeveldynamicID=351&DynamicID=349>. Access verified February 26, 2007.
- ⁵ Jocelyn Bauduy and Christine Somogyi, “Food Stamps: Financial Eligibility Requirements,” MassResources.org. Available at <http://www.massresources.org/pages.cfm?contentID=12&pageID=3%20&Subpages=yes&dynamicID=418>. All other households not mentioned in the above text must meet an asset limit of \$2,000. Households with a disabled person or a person age 60 or older must meet an asset limit of \$3,000.
- ⁶ “State Assistance Programs for SSI Recipients, January 2005: Massachusetts,” Social Security Administration, September 2005, Table 1. Available at http://www.ssa.gov/policy/docs/progdsc/ssi_st_asst/2005/ma.html.
- ⁷ Jocelyn Bauduy and Christine Somogyi, “Supplemental Security Income: Financial Eligibility Requirements,” MassResources.org, February 16, 2007. Available at <http://www.massresources.org/pages.cfm?contentID=18&pageID=4%20&subpages=yes&SecondLeveldynamicID=359&DynamicID=357>.
- ⁸ “Understanding Supplemental Security Income, 2006 Edition” Social Security Administration, 2006, page 10. Available at <http://www.ssa.gov/notices/supplemental-security-income/ussi-2006.pdf>.
- ⁹ Jocelyn Bauduy and Christine Somogyi, “Emergency Aid to Elders, Disabled and Children (EAEDC): An Overview,” MassResources.org, January 10, 2007. Available at <http://www.massresources.org/pages.cfm?contentID=16&pageID=4&Subpages=yes>.
- ¹⁰ Medical benefits are provided by MassHealth, the state health insurance program.
- ¹¹ Caregivers in disabled households are eligible for EAEDC but not for TAFDC.
- ¹² “Retirement: Saver’s Credit,” University of Washington, Human Resources, undated. Available at <http://www.cac.washington.edu/admin/hr/benefits/retirement/vip/saver-credit.html>.

APPENDIX

Calculating Effective Marginal Taxes on Regular Saving

As indicated, the calculations of the effective (net) marginal tax rate on saving assume the reduction in 2005 spending in order to save an additional \$100 is allocated uniformly to all future periods such that the living standard (consumption income) in all future periods rises by the same percentage. To create this outcome, two things are done in *ESPlanner*TM. First, the representative households are permitted to borrow as much as they need to sustain their living standards, allowing them to save additional money for the future while maintaining their current consumption income. Second, the living standard index used by the program is increased for all years from 2006 onward by 10 percent. This tells the program to lower 2005 consumption and raise consumption from 2006 onward in order to generate a 10 percent higher living standard from 2006 onward. In determining the effective tax rate on saving, the increase in the present value of consumption spending from 2006 onward is compared with the associated reduction in consumption spending in 2005.

The nominal discount rate used to determine the present value change in future consumption, measured in 2005 dollars, is 7 percent, which is the assumed real rate of return before any federal and state taxes are paid. The assumed inflation rate is 3 percent.

The effective tax rate on saving is calculated as $1 - X/Y$, where X is the present value increase in consumption from 2006 onward that is financed by a reduction in the amount Y of 2005 consumption.

The representative households consist of single parents or married couples whose spouses are the same age. Households are considered at ages 30, 45 and 60. Both the single-parent and the married households have two children to whom they gave birth at ages 27 and 29. The single households have initial income levels from \$0 to \$250,000. For married couples, the income spread is double that of the singles, ranging from \$0 to \$500,000. All household heads and spouses retire and start collecting Social Security benefits at age 65. Earnings between the household's 2005 age and retirement at age 65 are assumed to remain fixed in real terms. Each household is assumed to have mortgage and nonmortgage housing expenses. The 30-year-old households have initial assets equal to a quarter of a year's earnings for each income level, and expenses are scaled up as income levels increase. For example, a 30-year-old earning \$10,000 a year has a home valued at three times his/her income (\$30,000), a mortgage balance of \$24,000 and assets equal to \$2,500. College expenses are also factored in as part of nonhousehold expenses, and are equal to a quarter-year's earnings per child (for four years) or up to \$50,000 per child. The parents pay the college expenses when the children are 19 to 22 years old. The maximum age of each adult is 100 years. [See Appendix Table I for the assets and liabilities of other income levels.]

APPENDIX TABLE I

Characteristics of Representative Households**Single Households**

Total Annual Household Earnings	Assets at Age 30	Annual College Expense	House Value	Mortgage	Monthly Mortgage Payment	Annual Property Taxes	Annual Home Maintenance
\$10,000	\$2,500	\$2,500	\$30,000	\$24,000	\$300	\$300	\$150
\$15,000	\$3,750	\$3,750	\$45,000	\$36,000	\$450	\$450	\$225
\$25,000	\$6,250	\$6,250	\$75,000	\$60,000	\$750	\$750	\$375
\$35,000	\$8,750	\$8,750	\$105,000	\$84,000	\$1,050	\$1,050	\$525
\$50,000	\$12,500	\$12,500	\$150,000	\$120,000	\$1,500	\$1,500	\$750
\$100,000	\$25,000	\$25,000	\$300,000	\$240,000	\$3,000	\$3,000	\$1,500
\$250,000	\$62,500	\$50,000	\$750,000	\$600,000	\$7,500	\$7,500	\$3,750

Married Households

Total Annual Household Earnings	Assets at Age 30	Annual College Expense	House Value	Mortgage	Monthly Mortgage Payment	Annual Property Taxes	Annual Home Maintenance
\$20,000	\$5,000	\$10,000	\$60,000	\$48,000	\$600	\$600	\$300
\$30,000	\$7,500	\$15,000	\$90,000	\$72,000	\$900	\$900	\$450
\$50,000	\$12,500	\$25,000	\$150,000	\$120,000	\$1,500	\$1,500	\$750
\$70,000	\$17,500	\$35,000	\$210,000	\$168,000	\$2,100	\$2,100	\$1,050
\$100,000	\$25,000	\$50,000	\$300,000	\$240,000	\$3,000	\$3,000	\$1,500
\$200,000	\$50,000	\$50,000	\$600,000	\$480,000	\$6,000	\$6,000	\$3,000
\$500,000	\$125,000	\$50,000	\$1,500,000	\$1,200,000	\$15,000	15,000	\$7,500

About the Authors

Laurence J. Kotlikoff, a senior fellow with the National Center for Policy Analysis, is a professor of economics at Boston University, research associate of the National Bureau of Economic Research, fellow of the Econometric Society, a member of the Executive Committee of the American Economic Association and president of Economic Security Planning, Inc., a company specializing in financial planning software. Prof. Kotlikoff received his Bachelor of Arts degree in economics from the University of Pennsylvania in 1973 and his Doctor of Philosophy degree in economics from Harvard University in 1977. From 1977 through 1983 he served on the faculties of economics of the University of California–Los Angeles and Yale University. In 1981-1982 Prof. Kotlikoff was a senior economist with the President’s Council of Economic Advisers. Prof. Kotlikoff is coauthor (with Scott Burns) of *The Coming Generational Storm*; coauthor (with Alan Auerbach) of *Macroeconomics: An Integrated Approach* and *Dynamic Fiscal Policy*; author of *Generational Accounting* and *What Determines Savings?*; coauthor (with Daniel Smith) of *Pensions in the American Economy*; and coauthor (with David Wise) of *The Wage Carrot and the Pension Stick*. In addition, he has published extensively in professional journals, newspapers and magazines.

David S. Rapson is a doctoral candidate in economics at Boston University where he holds a Dean’s Fellowship. He received a Bachelor of Arts degree in economics from Dartmouth College in 1999 and a Master of Arts degree in economics from Queen’s University in 2003. Rapson’s research interests include public finance, environmental economics and applied industrial organization. Before returning to school for graduate studies he worked in Boston for three years as a strategy consultant.

About the NCPA

The NCPA was established in 1983 as a nonprofit, nonpartisan public policy research institute. Its mission is to seek innovative private sector solutions to public policy problems.

The center is probably best known for developing the concept of Medical Savings Accounts (MSAs), now known as Health Savings Accounts (HSAs). The *Wall Street Journal* and *National Journal* called NCPA President John C. Goodman “the father of Medical Savings Accounts.” Sen. Phil Gramm said MSAs are “the only original idea in health policy in more than a decade.” Congress approved a pilot MSA program for small businesses and the self-employed in 1996 and voted in 1997 to allow Medicare beneficiaries to have MSAs. A June 2002 IRS ruling frees the private sector to have flexible medical savings accounts and even personal and portable insurance. A series of NCPA publications and briefings for members of Congress and the White House staff helped lead to this important ruling. In 2003, as part of Medicare reform, Congress and the President made HSAs available to all non-seniors, potentially revolutionizing the entire health care industry.

The NCPA also outlined the concept of using tax credits to encourage private health insurance. The NCPA helped formulate a bipartisan proposal in both the Senate and the House, and Dr. Goodman testified before the House Ways and Means Committee on its benefits. Dr. Goodman also helped develop a similar plan for then presidential candidate George W. Bush.

The NCPA shaped the pro-growth approach to tax policy during the 1990s. A package of tax cuts, designed by the NCPA and the U.S. Chamber of Commerce in 1991, became the core of the Contract With America in 1994. Three of the five proposals (capital gains tax cut, Roth IRA and eliminating the Social Security earnings penalty) became law. A fourth proposal — rolling back the tax on Social Security benefits — passed the House of Representatives in summer 2002.

The NCPA’s proposal for an across-the-board tax cut became the focal point of the pro-growth approach to tax cuts and the centerpiece of President Bush’s tax cut proposal. The repeal by Congress of the death tax and marriage penalty in the 2001 tax cut bill reflects the continued work of the NCPA.

Entitlement reform is another important area. With a grant from the NCPA, economists at Texas A&M University developed a model to evaluate the future of Social Security and Medicare. This work is under the direction of Texas A&M Professor Thomas R. Saving, who was appointed a Social Security and Medicare Trustee. Our online Social Security calculator, found on the NCPA’s Social Security reform Internet site (www.TeamNCPA.org), allows visitors to discover their expected taxes and benefits and how much they would have accumulated had their taxes been invested privately.

Team NCPA is an innovative national volunteer network to educate average Americans about the problems with the current Social Security system and the benefits of personal retirement accounts.

In the 1980s, the NCPA was the first public policy institute to publish a report card on public schools, based on results of student achievement exams. We also measured the efficiency of Texas school districts. Subsequently, the NCPA pioneered the concept of education tax credits to promote competition and choice through the tax system. To bring the best ideas on school choice to the forefront, the NCPA and Children First America published an *Education Agenda* for the new Bush administration,

policymakers, congressional staffs and the media. This book provides policymakers with a road map for comprehensive reform. And a June 2002 Supreme Court ruling upheld a school voucher program in Cleveland, an idea the NCPA has endorsed and promoted for years.

The NCPA's E-Team program on energy and environmental issues works closely with other think tanks to respond to misinformation and promote commonsense alternatives that promote sound science, sound economics and private property rights. A pathbreaking 2001 NCPA study showed that the costs of the Kyoto agreement to halt global warming would far exceed any benefits. The NCPA's work helped the administration realize that the treaty would be bad for America, and it has withdrawn from the treaty.

NCPA studies, ideas and experts are quoted frequently in news stories nationwide. Columns written by NCPA scholars appear regularly in national publications such as the *Wall Street Journal*, *Washington Times*, *USA Today* and many other major-market daily newspapers, as well as on radio talk shows, television public affairs programs, and in public policy newsletters. According to media figures from Burrelle's, nearly 3 million people daily read or hear about NCPA ideas and activities somewhere in the United States.

The NCPA home page (www.ncpa.org) links visitors to the best available information, including studies produced by think tanks all over the world. Britannica.com named the ncpa.org Web site one of the best on the Internet when reviewed for quality, accuracy of content, presentation and usability.

What Others Say about the NCPA

"...influencing the national debate with studies, reports and seminars."

- TIME

"Oftentimes during policy debates among staff, a smart young staffer will step up and say, 'I got this piece of evidence from the NCPA.' It adds intellectual thought to help shape public policy in the state of Texas."

- Then-GOV. GEORGE W. BUSH

"The [NCPA's] leadership has been instrumental in some of the fundamental changes we have had in our country."

- SEN. KAY BAILEY HUTCHISON

"The NCPA has a reputation for economic logic and common sense."

- ASSOCIATED PRESS

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