The tax treatment of funded pensions


Abstract

Pension funds are an important part of private savings flows, the main supplier of capital to industry and play a large and growing role in providing retirement incomes in countries with mature funded pension systems. Reforms which increase the emphasis on privately managed, funded pensions must get the tax treatment right. This paper sets out the options for taxing pensions, and the arguments between them. The tax treatment in 35 different countries is described and summarized in an empirical measure: the marginal effective tax rate. Other data assess the importance of pension funds and tax incentives in aggregate, drawing on national and international sources.

References:

Canada, Department of Finance (1993), Personal and Corporate Income Tax Expenditures, Ottawa.
Mexico, Comision Nacional del Sistema de Ahorro para el Retiro (1997), Buletin Informativo SAR, no. 14, September/October, Mexico City.
The present study analyzes the tax treatment of only those old-age pensions that are paid under general social security programs. It does not deal with old-age pensions provided under special systems or for civil servants. It does not cover other social security branches, since the tax treatment of contributions and benefits under the other branches paying cash benefits—sickness insurance benefits or family allowances, for example—differs extensively from program to program and from country to country. “Early” retirement benefits (actuarially reduced benefits paid before the normal pension...