

Summary of Paper: [The Impact of Tax Incentive Structure on Taxpayers' Retirement Savings Decisions](#)

What is this Study About?

This research examines how the structure of tax incentives can influence taxpayers' decisions regarding retirement savings. Specifically, it compares the appeal of back-loaded (e.g., “Roth”) and front-loaded (e.g., “traditional”) tax incentives, investigating whether taxpayers’ preferences are influenced by their broader attitudes and perceptions, regardless of how the incentives affect their after-tax returns.

What are the major findings of the study?

As expected, the study found that individuals strongly preferred back-loaded plans even when their own predictions regarding future tax rates suggested that a back-loaded plan would produce a lower after-tax return. Although explaining the economic impact of tax rate changes led to more return-maximizing choices, it did not change the inherent preference for back-loaded plans. The strength of this preference was related to several broadly held attitudes and perceptions including a preference for prepaying for consumption, the tendency to directly link the tax savings available from participation with taxes paid, beliefs regarding the relative predictability of the plans’ costs and benefits, and the dread of looming liabilities.

Why is the study important?

These findings emphasize the importance of considering behavioral biases in tax policy design and how taxpayers’ broader attitudes and preferences align with the structure of tax incentives. Specifically, they suggest that back-loaded retirement plans may be more attractive to many taxpayers, regardless of their relative economic benefits. This insight is crucial for developing effective strategies to encourage retirement savings among taxpayers, particularly in a graying world.