U.S. Tax Reform and the Labor Supply Incentives of the Elderly

Alan Auerbach
University of California, Berkeley

Laurence Kotlikoff
Boston University

and

Darryl Koehler
The Fiscal Analysis Center

July 28, 2017

We thank the Sloan Foundation for research support. All opinions are strictly those of the authors.
I. Introduction

The United States faces a major fiscal gap. To a considerable extent, the gap relates to the commitments of entitlement programs to a growing elderly population. The need for future fiscal adjustments makes it unlikely that the current generosity of these programs can be maintained. Yet many of today’s elderly and retiring Baby Boomers lack the resources needed to support their consumption during retirement. One partial solution to the fiscal gap and the inadequacy of resources among the elderly is delayed retirement and increased labor force participation among able-bodied and willing elderly. But, as discussed in our earlier research (Auerbach et al. 2017), the US tax and transfer system presents very large work disincentives for most elderly workers. In this paper, we consider the extent to which a major tax reform can moderate these disincentives. The plan we consider, the House Republican “Blueprint,” first put forward in June 2016, is not the only possible path to tax reform. We analyze it for two reasons. First, it lays out a comprehensive change in the tax system. Second, it aims to significantly lower marginal taxes. We also consider a modified version of the plan that includes the uncapping of Social Security’s payroll tax, which might be viewed as a realistic compromise for dealing with potential revenue losses and concerns about tax progressivity.

As stressed in our earlier analysis, the labor supply incentives of the U.S. tax and transfer system, particularly those facing the elderly, are highly complex. They depend not just on the explicit schedule of marginal tax rates on labor income but also those on capital income. The reason is simple. Not all additional labor income is consumed immediately. And labor income that is saved is subjected, via the taxation of asset income, to what is commonly referred to as “double taxation.” The asset income arising from saving current after-current-tax labor income can also impact future transfers from programs with income tests, such as Medicaid. This
additional asset income can also raise explicit and implicit taxes. This includes placing workers in higher future tax brackets and subjecting them to high-income Medicare premiums. We incorporate such effects in our model, described more fully below. We begin, however, with a description of the House tax reform proposal, which, again, is the focus of our analysis.

**Overview of the House Republican Tax Plan**

The House Republican “A Better Way” tax reform\(^1\) plan includes a significant redesign of our business tax system. It effectively replaces the corporate income tax with a 20 percent destination-based business cash-flow tax. Proprietorships, partnerships, S corporations and other pass-through entities would face a distinct schedule with a top rate of 25 percent on pass-through income.\(^2\) The reform would also streamline and significantly simplify personal income taxation by eliminating the Alternative Minimum Tax, unifying the tax treatment of personal asset income (taxing half of personal asset income), eliminating exemptions, eliminating the deductibility of state income and property taxes, raising the standard deduction and modifying the child-tax credit. In addition, the plan moves from seven to three income-tax brackets, with the top rate lowered from 39.6 percent to 33 percent.\(^3\)

On the business side, the tax plan would make major changes, permitting expensing (immediate write-off) of the cost of new investment, eliminating the deductibility of interest, and introducing border tax adjustments to ensure that companies no longer have an incentive to either move their operations or to shelter their profits abroad. The resulting tax is a *cash flow tax*


\(^2\) This will, we presume, necessitate provisions to limit the ability of high-income households to move income from the new top 33 percent personal rate to the 25 percent rate.

\(^3\) The plan also includes elimination of the estate and gift tax, elements that we do not consider in our analysis below.
because it taxes all revenues earned from sales within the U.S. less all costs.\textsuperscript{4} Costs include outlays on goods, including investment goods, whether imported or produced locally, as well as all wages. Mathematically, this business cash flow tax is equivalent to imposing a subtraction-method, destination-based Value Added Tax (VAT) with an equal-rate subsidy to wages.\textsuperscript{5}

Since a household’s current and future consumption is financed by its current and future wages plus its current net worth, the combination of a VAT and a wage subsidy is effectively equivalent to taxing initial wealth as well as the future returns to capital in excess of the required market rate of return. This makes the business tax reform a significant progressive element of the overall tax plan, which offsets some regressive features of the tax plan’s personal income tax reform, notably the reduction in the top rate from 39.6 percent to 33.0 percent.

In addition to considering the effects of the Better Way tax plan as just described, we also consider a modification of the tax plan, namely one that also eliminates the ceiling on Social Security’s FICA payroll tax. Lifting the FICA ceiling would generate more revenues and raise progressivity relative to both the current system and the tax plan. It would help shore up Social Security’s finances and, potentially, enhance political support. But it represents just one of many ways to modify the tax plan, is in no way linked to the House Republican plan, and would mitigate the marginal tax rate reductions of the basic plan itself.

\textsuperscript{4} The House business cash flow tax is similar in many respects to that proposed by Auerbach (2010) as well as The Growth and Investment Tax Plan proposed in 2005 by The President’s Advisory Panel on Tax Reform (see https://www.treasury.gov/resource-center/tax-policy/Documents/Report-Fix-Tax-System-2005.pdf)

\textsuperscript{5} The border adjustment can be implemented by having firms simply exclude revenues earned from exports and costs incurred from imports.
II. Methodology

To measure the effects of the tax plan as well as our modified tax plan on work incentives of the elderly as well as those approaching the retirement decision, we ran all households sampled above age 50 in the Federal Reserve’s 2013 Survey of Consumer Finances (SCF) through The Fiscal Analyzer (TFA). TFA is a detailed life-cycle consumption-smoothing program that incorporates both borrowing constraints and lifespan uncertainty as well as all major federal and state tax and transfer programs.6

In the course of doing its consumption smoothing, TFA determines each household’s expected present value of remaining lifetime spending, where the term expected references averaging over different longevity outcomes and spending encompasses all expenditures, including terminal bequests net of estate taxes. The impetus for focusing on remaining lifetimes, rather than just the current year, comes from standard life cycle economic theory, which postulates that people care about the future, not just the present.

The lifetime budget constraint facing each household is given by

\[ S = R - T, \]

where \( S \) references the present expected value of a household’s remaining lifetime spending, \( R \) stands for remaining lifetime resources (the present expected value of remaining lifetime labor earnings plus its current net worth) and \( T \) stands for the present expected value of remaining lifetime taxes net of transfer payments received. The average net tax rate, \( t \), is defined by

---

6 See Auerbach, Kotlikoff, and Koehler (2016) for a detailed discussion of the programs incorporated in TFA. Because we do not observe an individual’s actual state of residence, we [add description here of how we assign individuals to states.] In our initial step of calibrating the model to match current-year aggregates for federal tax revenue, we use the entire population of individuals, rather than just those over age 50.
(2) \( t = T/R, \)

and the marginal net tax rate, \( m, \) is given by

(3) \( m = \Delta T/\Delta R, \)

where \( \Delta T \) references the change in the present expected value of net taxes associated with an increase of \( \Delta R \) in the present expected value of resources. Thus, if the expected present value of a household’s spending is, for example, 65 percent of remaining lifetime resources, its average net tax rate, \( t, \) equals 35 percent. And if earning, say, another $10,000 this year changes \( T \) by $3,000, the marginal net tax rate is 30 percent.

Average remaining lifetime net tax rates tell us not only the net share of their resources that households surrender to the government. They also tell us about the progressivity of the fiscal system. If average net tax rates rise with the level of resources, the fiscal system is progressive. If they fall, the system is regressive. If they are independent of the level of resources, the system is proportional.

This paper, like our prior studies using TFA (Auerbach et. al., 2016, Auerbach et. al., 2017), analyzes the effects of the fiscal system on a cohort-specific basis, in this instance looking at five-year cohorts as well as those in the key age range of 62-65, where the retirement decision and the provisions of the social security system are concentrated. We use cohort-specific analysis because failing to do so amounts to comparing apples to oranges, whether the comparison involves an evaluation of progressivity, well-being, or work incentives. Ranked by remaining lifetime spending, older cohorts would look poorer than younger cohorts simply because they had shorter remaining lifespans. Remaining lifetime net tax rates of older cohorts would appear lower than those of younger cohorts simply because the elderly would receive no
credit for net taxes paid in the past and appear to be subsidized because they are collecting or will start to collect Medicare, Medicaid, and Social Security benefits sooner than younger cohorts. And the marginal tax rates faced by different cohorts are quite different simply because of the workings of important, age-based transfer programs like Social Security and Medicare.

III. Modeling the Current Tax System

Auerbach et. al. (2016) and Auerbach et. al. (2017) discuss TFA’s modeling of the current tax system. We take several steps here to match the Congressional Budget Office’s 2017 revenue projections. First we inflate all dollar amounts reported in the 2013 SCF data by nominal average wage growth between 2013 and 2017. Second, we inflate all wage and self-employment income by 9 percent to match the CBO’s 2017 projected FICA tax receipts.

Third, we assume a corporate tax rate to match CBO’s 2017 corporate revenue projections as closely as possible. We levy this corporate tax on the model’s assumed pretax return to stock holdings. Stock values have risen faster than wages between 2013 and the present. In addition, the SCF respondents appear to underreport their stock holdings. Also, CBO makes various assumptions about corporate income-tax collections in reaching its 2017 projected total. Finally, not all corporate equity is held directly or indirectly by US households, but in our analysis we are assuming that there is no shifting of the corporate tax to others, either domestically (e.g., US workers) or abroad (e.g., foreign shareholders). To capture all of these factors, we simply set the corporate tax rate in the TFA to reproduce the CBO’s 2017 corporate tax total based on our entire sample population.

---

7 [https://www.ssa.gov/oact/cola/AWI.html#Series](https://www.ssa.gov/oact/cola/AWI.html#Series) reports Social Security’s average wage index series through 2015. We assume the same growth rate for 2015 and 2016 as that reported for 2014.
Fourth, the SCF asks respondents what they specified as taxable capital gains, dividends, and interest income on their 2012 individual tax returns. We used these data (adjusted for wage growth) in calculating personal\(^8\) income taxes under both the current tax system and the House tax plan. In the case of taxable capital gains income, we formed, by cohort and resource decile, total reported (realized) capital gains divided by total stock holdings. We vary these capital-gains, income-realization rates through time as respondents move from one age cohort to another. We engage in an identical resource-specific decile procedure to determine respondents’ shares, as they move from one age group to another, of stock holdings out of total financial assets.

The CBO projects 2017 personal income tax, FICA tax, and corporate income tax revenues of $1.651 trillion, $1.150 trillion, and $320 billion, respectively.\(^9\) Based on the methodology just described, TFA’s corresponding 2017 tax revenues estimates are $1.791 trillion, $1.104 trillion, and $330 billion, respectively. Thus, relative to the CBO, TFA is 8.48 percent high in estimating federal income taxes, 4.00 percent low in estimating FICA taxes, and 3.12 percent high in estimating corporate income taxes.

IV. Modeling the Better Way Tax Plan

As mentioned, the business tax part of the House Republican tax reform effectively implements a tax on wealth. According to Burman et al. (2017), based on estimates using the Tax Policy Center model, the plan’s cash flow tax is close to revenue neutral ignoring changes in revenues

---

\(^8\) In both procedures, we assume that respondents in resource decile \(j\) will remain in resource decile \(j\) as they move from one ten-year age bracket to another.

arising during the transition from the current to the new business tax system.\textsuperscript{10} Since the Better Way tax plan leaves many transition details unresolved, it seemed best, to measure its long-run consequences, simply to ignore transition revenue effects and form our calculations assuming the cash flow tax generates the same revenues as the current corporate tax system.

Since the cash flow tax represents an implicit tax on consumption financed out of wealth, we capture its impact by introducing a one-time tax on wealth in TFA. This tax is assessed only on net financial wealth; i.e., its base excludes home equity since the tax plan, like the current tax system, does not treat the receipt of imputed rent on owned homes as business income. We set the rate for this net financial wealth tax at 13.6 percent. This tax rate was chosen because it reduces TFA’s 2017 total consumption spending by roughly $330 billion, which is the amount of 2017 corporate tax revenues generated by TFA under the current tax system.

On the personal income tax side, we follow the tax plan with respect to all specified details. One detail that is not clearly specified is how the tax plan will prevent high tax-bracket households who receive pass-through self-employment and other income from declaring all their income as business income to permit its taxation at 25 percent. The Better Way tax reform document hints at the implementation of a limit on such behavior. Our guess of how this limit would be imposed is the implementation of a ceiling on the share of income that would otherwise be taxed at a rate above 25 percent that can be declared business income. We set the share of such income that cannot be claimed as business income at 25 percent. (Assuming a higher share would lower our estimated revenue loss from the proposal.)

Based on the characterization just described, the House tax plan loses $212 billion in revenue on an annual basis, according to our methodology, and ignoring any potential dynamic

\textsuperscript{10} According to Table 2 in their paper, the corporate tax provisions would reduce revenues slightly, by a total of $192.5 billion over the decade 2027-2036.
feedback effects on economic growth. With a lifting of the FICA ceiling, there is a $128 billion annual rise in revenues. These potential revenue changes need to be compared with our model’s baseline total federal revenue (including just corporate and personal income taxes) of $3.272 trillion. The tax plan alone produces 6.5 percent less federal revenue. For the modified tax plan, which includes elimination of Social Security’s FICA taxable earnings ceiling, the revenue gain is 3.9 percent. Of course, to the extent that the plan stimulates additional economic growth, these revenue calculations may be unduly pessimistic. However, it seems realistic to consider the additional change in the payroll tax to illustrate the extent to which marginal tax rates can be reduced without a loss of tax revenue, even without a reliance on dynamic feedback.

V. Marginal Tax Rates of the Elderly

We begin a discussion of our results by considering the marginal remaining lifetime tax rates of the elderly under the current US tax and transfer system. Figure 1 shows the median lifetime marginal tax rates by five-year age cohorts, from those aged 50-54 to those aged 75-79. Marginal tax rates are estimated based on the experiment of giving each individual an additional $1,000 of labor income in the current year. Next we take into account the various changes in resulting tax liabilities and transfer receipts for that individual, including changes not only in the current year but also in the future, as a consequence of changes in current saving that result from the additional labor income. To be precise, we measure the present value of additional lifetime net taxes associated with the extra $1,000. Dividing this amount by the $1,000 produces our reported marginal remaining lifetime net tax rate.

Within each cohort, measures are broken down based on the distribution of remaining lifetime resources (before taxes and transfers) among those in the cohort, with values provided
for each quintile of the distribution as well as well as for the top 5% and 1% of the distribution. Also, for comparison, we provide in the figure the corresponding values for median current-year marginal tax rates. While our current-year marginal tax rates are more comprehensive than those typically found in the literature, which are based only on changes in income and payroll taxes, they still fail to incorporate future-year changes in taxes and transfers and therefore are incomplete measures of the work disincentives facing workers. However, they are useful to consider not only for us to understand the importance of taking account of future net taxes, but also because individuals whose decisions are myopic might be influenced more by the current-year marginal tax rates than economic theory suggests.

Figure 1 offers several lessons. First, median remaining lifetime marginal tax rates are generally high, ranging from just under 20% to over 50%. This represents a large potential impact across the age and resource distribution on incentives to work in old age and prior to reaching old age. Second, remaining lifetime marginal tax rates are higher than current-year marginal tax rates. This is especially true at the top and bottom of the lifetime resource distribution, but for different reasons. For those at the top, particularly those in the younger cohorts, future taxes on future asset income arising from current saving are substantial, given the progressivity of the income tax. For those at the bottom, and particularly among those at the bottom and in older cohorts, added resources that translate into more future wealth raise the likelihood of a loss of benefits through means-testing. Third, lifetime marginal tax rates do not have any consistent trend with respect to age across the resource distribution. For the wealthiest individuals, marginal tax rates decline with age, because of less need for life-cycle saving and capital accumulation and lower labor earnings in old age. For the poorest, the tax-rate trend is u-shaped, as the lower current marginal tax rates associated with lower current labor income are
eventually offset by the increasing importance of means-testing. For the relatively affluent fourth and fifth resource quintiles, there is little movement in lifetime marginal tax rates with age.

Median marginal tax rates do not tell the complete story regarding labor supply incentives. The reason is the considerable dispersion among marginal tax rates within each age-resource cell. Thus, while the median individual may face a marginal tax rate of, say 35% – the median over all age cohorts above age 50 in the middle resource quintile – many individuals face marginal tax rates that are considerably higher. Figure 2 illustrates this dispersion, showing for each age cohort and resource quintile the fraction of individuals with marginal tax rates below 0%, between 0% and 20%, and for each 20% range thereafter, with a final group consisting of those with marginal tax rates above 80%. Note that this final bin includes individuals with marginal tax rates above 100%.

The figure shows that dispersion is high, and that for many age-resource cells the distribution of marginal tax rates is bimodal. For example, for those in the lowest resource quintile aged 75-79, the most common marginal tax rate range is between 0% and 20%, consistent with the fact that such individuals have little income and would face low marginal income tax rates on additional income. But the second most common marginal tax rate range for this group is between 60% and 80%, representing individuals facing the potential loss of benefits, a group to which we referred above in discussing median marginal tax rates for this age-resource cell.

A. Marginal Tax Rates under the House Blueprint

Figure 3 shows the median remaining lifetime and current-year marginal tax rates on labor income by age cohort and resource group for the House Blueprint tax plan, following the same
format as Figure 1 for current law. In most cases, marginal tax rates fall, but the declines vary considerably across the different groups. For those at the top of the resource distribution – the top 1% – marginal tax rates decline substantially. For most other groups, the declines in lifetime tax rates are much smaller, typically between 0 and 2 percentage points. Notable exceptions are those in the highest age group in the first and third quintiles, where substantial reductions occur. As discussed earlier, these are groups more likely to be subject to means testing of benefits, a condition that leads to a bimodal distribution of marginal tax rates (see the last panel of Figure 2). For such groups, the bimodal distribution of tax rates remains but the median is more sensitive to shifts in the distribution.

**B. Marginal Tax Rates under the House Blueprint with No FICA Cap**

As discussed earlier, the basic House Blueprint would lead to an estimated revenue loss of $212 billion. While dynamic responses of labor supply and saving might offset some or all of this revenue loss, it is worth considering the impact of additional measures aimed at making the plan revenue-neutral, even without dynamic feedback effects. One potential measure would be to remove the income limit on FICA payroll taxes, which would also help ensure the viability of the Social Security system and address concerns about the distributional consequences of the basic House plan.

Before discussing the effects of uncapping the FICA tax, it is worth noting that, while the House Blueprint appears to have a small adverse effect on the distribution of lifetime spending for the population as a whole (Auerbach, Kotlikoff and Koehler, 2017), this appears not to be the case for those above age 50. Figure 4 shows the distribution of lifetime resources (before taxes and transfers) and lifetime spending (net of taxes and transfers) for those aged 50-79 under current law (top panel) and the basic House plan (middle panel). Under current law, the
progressivity of the fiscal system causes those in the higher resource groups to have a lower share of lifetime spending than of underlying market resources – they pay a larger share of their resources to the government and consume less than others. Under the basic House plan, the overall distribution of spending does not change markedly, and the winners are not those at the very top of the distribution – those in the top 1% or 5% of lifetime resources – but rather those toward the middle, in the third and fourth quintiles. An explanation for this lies in the fact that, while the House plan lower taxes overall, it lowers the burden more on labor than on capital, given the effective imposition of a tax on existing wealth brought about by the change in business taxation. Among older groups, wealth (as opposed to future labor income) represents a greater share of remaining lifetime resources than among younger groups, and so the progressivity of the House plan is greater among the elderly than among the adult population as a whole. Nevertheless, uncapping the FICA tax makes the system even more progressive, including for the population over 50, as the last panel of Figure 4 shows. Not surprisingly, however, this also worsens the labor supply incentives of those with incomes above the current FICA cap.

Figure 5 shows median marginal tax rates for this modified House plan, which can be compared to those in Figures 1 and 3 for current law and the basic House plan, respectively. As a comparison with Figure 3 shows, the modification has no impact below the fourth quintile of the resource distribution, and a sizable impact only at the very top for the older groups, where few even among the affluent have labor income near the current FICA ceiling. However, especially among the younger age cohorts, more affluent individuals face a substantial increase in their remaining lifetime marginal tax rates. Note, however, that even among these groups, the marginal tax-rate increase is overstated by looking only at current-year effects. For example,
among those aged 50-54 in the top 1%, the current-year median marginal tax rate rises from 34.9% to 46.4%, while the remaining lifetime marginal tax rate rises from 41.7% to 47.7%. This smaller rise in lifetime marginal tax rates reflects the fact that those who pay higher current payroll taxes will reduce additional saving and hence pay lower future capital income taxes. This effect is more pronounced among the younger age groups in the figure, who have a longer saving horizon and thus would choose to save a higher fraction of any increase in current disposable income.

The distinction between lifetime and current-year marginal tax rates is also important in comparing the modified House plan to current law. Examining Figures 1 and 5, we see that, even with the uncapped FICA tax, the House plan delivers lower marginal tax rates on additional labor income, even for those at the top of the income distribution in all age groups. This is not true for current-year marginal tax rates, which increase for those in the top 1% for age cohorts between 50 and 69.

VI. Conclusion

The House Blueprint tax reform plan would substantially reduce lifetime marginal tax rates on labor supply for those age 50 and above. At least for those in this age group, marginal tax rates would generally fall, although by much less at the top, for our modified plan that includes uncapping the Social Security payroll tax. This addition to the House plan would increase progressivity and put the plan on a more solid revenue footing, producing an estimated revenue surplus relative to the current system, even without adding in any potential effects on revenue of induced income growth. This shows that it is feasible to construct a progressive and fiscally responsible tax reform that encourages work among the elderly and the near-elderly. This is an
important finding given the desirability of encouraging labor force participation among this group of potential workers.
References


Figure 1. Median Lifetime and Current-Year Marginal Tax Rates, by Age Cohort and Income Quintile/Percentile: Current Law

<table>
<thead>
<tr>
<th>Ages 50 - 54</th>
<th>Median Lifetime and Current-Year Marginal Tax Rates, by Age Cohort and Income Quintile/Percentile: Current Law</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ages 55 - 59</td>
<td></td>
</tr>
<tr>
<td>Ages 60 - 64</td>
<td></td>
</tr>
<tr>
<td>Ages 65 - 69</td>
<td></td>
</tr>
<tr>
<td>Ages 70 - 74</td>
<td></td>
</tr>
<tr>
<td>Ages 75 - 79</td>
<td></td>
</tr>
</tbody>
</table>
Figure 2. Dispersion of Median Lifetime Marginal Tax Rates, by Age Cohort and Income Quintile/Percentile: Current Law
Figure 3. Median Lifetime and Current-Year Marginal Tax Rates, by Age Cohort and Income Quintile/Percentile: House Blueprint

Ages 50 - 54

- Lowest: 30.3% 30.0%
- Second: 36.5% 34.5%
- Third: 40.1% 38.8%
- Fourth: 40.5% 34.5%
- Highest: 41.9% 36.7%
- Top 5%: 41.7% 34.9%

Ages 55 - 59

- Lowest: 31.4% 29.4%
- Second: 34.7% 31.6%
- Third: 39.3% 38.9%
- Fourth: 37.9% 33.1%
- Highest: 37.9% 33.5%
- Top 5%: 39.2% 35.8%

Ages 60 - 64

- Lowest: 31.4% 18.4%
- Second: 29.9% 29.1%
- Third: 33.1% 29.7%
- Fourth: 35.6% 37.6%
- Highest: 40.1% 35.9%
- Top 5%: 40.0% 35.5%

Ages 65 - 69

- Lowest: 19.1% 14.7%
- Second: 29.4% 17.7%
- Third: 33.2% 33.8%
- Fourth: 37.0% 36.8%
- Highest: 41.5% 38.6%
- Top 5%: 43.0% 35.6%

Ages 70 - 74

- Lowest: 20.7% 15.3%
- Second: 18.3% 14.6%
- Third: 33.5% 31.4%
- Fourth: 37.2% 36.1%
- Highest: 41.0% 37.6%
- Top 5%: 41.0% 37.7%
- Top 1%: 45.3% 41.8%

Ages 75 - 79

- Lowest: 24.8% 16.8%
- Second: 18.8% 14.5%
- Third: 19.1% 14.6%
- Fourth: 37.6% 35.0%
- Highest: 38.5% 36.8%
- Top 5%: 40.5% 42.2%
- Top 1%: 31.7% 28.4%

Legend:
- Median Marginal Lifetime Net Tax Rate
- Median Marginal Current Year Net Tax Rate
Figure 4. Lifetime Resources and Spending by Resource Percentile Range, Ages 50 – 79

Current Law

Basic House Plan

House Plan and No FICA Cap

[Bar charts showing share of lifetime resources and spending by resource percentile range for Current Law, Basic House Plan, and House Plan and No FICA Cap.]

- **Current Law**
  - Lowest: 1.4% Share of Lifetime Resources, 68.4% Share of Lifetime Spending
  - Second: 5.7% Share of Lifetime Resources, 41.3% Share of Lifetime Spending
  - Third: 4.7% Share of Lifetime Resources, 33.3% Share of Lifetime Spending
  - Fourth: 8.0% Share of Lifetime Resources, 20.5% Share of Lifetime Spending
  - Highest: 8.8% Share of Lifetime Resources, 15.9% Share of Lifetime Spending

- **Basic House Plan**
  - Lowest: 1.4% Share of Lifetime Resources, 68.4% Share of Lifetime Spending
  - Second: 5.7% Share of Lifetime Resources, 41.3% Share of Lifetime Spending
  - Third: 4.7% Share of Lifetime Resources, 32.9% Share of Lifetime Spending
  - Fourth: 8.0% Share of Lifetime Resources, 20.4% Share of Lifetime Spending
  - Highest: 8.8% Share of Lifetime Resources, 15.7% Share of Lifetime Spending

- **House Plan and No FICA Cap**
  - Lowest: 1.4% Share of Lifetime Resources, 68.5% Share of Lifetime Spending
  - Second: 5.8% Share of Lifetime Resources, 41.3% Share of Lifetime Spending
  - Third: 4.6% Share of Lifetime Resources, 32.5% Share of Lifetime Spending
  - Fourth: 8.1% Share of Lifetime Resources, 20.5% Share of Lifetime Spending
  - Highest: 8.8% Share of Lifetime Resources, 15.7% Share of Lifetime Spending

Legend:
- Blue: Share of Lifetime Resources
- Green: Share of Lifetime Spending
Figure 5. Median Lifetime and Current-Year Marginal Tax Rates, by Age Cohort and Income Quintile/Percentile: House Blueprint with No FICA Cap

<table>
<thead>
<tr>
<th>Ages 50 - 54</th>
<th>Lowest</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
<th>Highest</th>
<th>Top 5%</th>
<th>Top 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ages 55 - 59</td>
<td>31.4%</td>
<td>31.0%</td>
<td>34.7%</td>
<td>39.9%</td>
<td>41.2%</td>
<td>44.9%</td>
<td>47.0%</td>
</tr>
<tr>
<td>Ages 60 - 64</td>
<td>31.4%</td>
<td>30.3%</td>
<td>33.1%</td>
<td>38.4%</td>
<td>42.3%</td>
<td>46.9%</td>
<td>47.2%</td>
</tr>
<tr>
<td>Ages 65 - 69</td>
<td>19.1%</td>
<td>29.4%</td>
<td>33.2%</td>
<td>37.1%</td>
<td>42.9%</td>
<td>46.8%</td>
<td>49.7%</td>
</tr>
<tr>
<td>Ages 70 - 74</td>
<td>20.7%</td>
<td>18.3%</td>
<td>33.5%</td>
<td>37.2%</td>
<td>41.1%</td>
<td>43.8%</td>
<td>47.3%</td>
</tr>
<tr>
<td>Ages 75 - 79</td>
<td>24.8%</td>
<td>18.8%</td>
<td>19.1%</td>
<td>37.6%</td>
<td>38.6%</td>
<td>40.5%</td>
<td>36.5%</td>
</tr>
</tbody>
</table>

Legend:
- Green: Median Marginal Lifetime Net Tax Rate
- Orange: Median Marginal Current Year Net Tax Rate