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Do Individual Retirement Accounts Increase Savings?

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Abstract

Do IRAs increase savings or are they merely a windfall for otherwise well-off taxpayers? A major objective of universal IRAs was to encourage saving for retirement. A spirited debate has ensued over the use of IRA tax deductions as a means of promoting private savings. The crucial policy issue is not whether IRA contributions were substantial; they clearly were, representing about 30 percent of personal savings from 1982 to 1986. Rather the important question is the source of

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normally incorporated in economic analysis. This paper reviews both types of analysis and concludes that the conventional view remains sound. Thus, a dollar devoted to deficit reduction is likely to be a safer bet for increasing savings than a dollar devoted to IRA benefits.

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