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APPENDIX F

Derivation of Estimate of Tax Liability Attributable to Pensions and Annuities Reported and Estimate of Total Reportable Pension and Annuity Benefits

TABLE F-1

Tax Liability Attributable to Pensions and Annuites, 1962 and 1964
(millions of dollars)

	1962			1964		
	Returns with No Taxpayer Over 65	Returns with at Least One Taxpayer Over 65	Total	Returns with No Taxpayer Over 65	Returns with at Least One Taxpayer Over 65	Total
1. Pensions and annuities	517	1,806	2,322	723	2,394	3,118
2. Gross tax liability on pensions and annuities	57	157	214	72	182	254
3. Retirement income credit attributable to pensions and annuities	28	22	50	24	27	51
4. Net tax liability (line 2 minus line 3)	29	134	163	48	155	203
5. Effective rate on pensions and annuities (line 4 ÷ line 1 – per cent)	5.6	7.4	7.0	6.6	6.4	6.5

Source: Estimates prepared from *Statistics of Income*, 1962, Tables 4 and 22, and 1964, Tables 4 and 27.

Note to Table F-1

A distribution of pensions and annuities was available separately for those over and under 65, by income groups, for 1962 and 1964. To find tax liability on pensions and annuities, it was assumed that the effective tax rate within an income and age group did not differ by type of income. The amount of retirement income credit which could be attributed to pensions and annuities was subtracted from the pro rata share of tax liability. This was the full amount of the retirement income credit for those under 65; however, dividend, interest, and gross rental income[1] were also considered retirement income for anyone over 65 who had received more than $600 earned income in any ten previous calendar years. The retirement income credit was prorated on the basis of the ratio of pensions and annuities to total retirement income by income classes for this age group.

[1] Gross rental income by income classes was estimated by multiplying net rental income minus net rental loss by the ratio of total contract rent to net rental income of landlords for 1950 (*National Income*, 1954, p. 87).

TABLE F-2

Total Estimated Pension and Annuity Benefit Payments Reportable, 1964
(millions of dollars)

	1964
I. Private industry plans	
Benefit payments	2,760
Less estimated employee contributions	342
Equals amount to be reported	2,418
II. Individual annuities and supplemental contracts	
Benefit payments	423
Less premium payments	330
Equals amount to be reported	93
III. Government retirement plans	
Benefit payments	3,313
Less estimated employee contributions	964
Equals amount to be reported	2,349
IV. Total estimated amount to be reported	4,860

Source: For private industry plans, see Alfred M. Skolnik, "Growth of Employee Benefit Plans, 1954–65," *Social Security Bulletin,* April 1966, Table 4; for individual annuities and supplemental contracts, *Life Insurance Fact Book,* 1965, pp. 34 and 55; and for public employee retirement plans, *Survey of Current Business,* July 1966, Tables 3.7, 3.8 and 3.9, p. 23.

The share of employee contributions in private industry plans was crudely estimated by assuming that they constituted the same proportion of benefit payments in 1964 as they did of the combined total of employer contributions, employee contributions, and investment income in 1950. While the choice of 1950 was arbitrary, the use of later years would have given too much weight to investment income in view of the rapid growth of pension fund reserves in the postwar years. Premium payments for individually purchased annuities and supplemental contracts were estimated by assuming that they made up the same proportion of benefit payments on individual annuities and supplemental contracts as did premium payments for life and health insurance policies and annuities of total life insurance company income in 1964. For public employees' retirement plans, the same method as for private industry plans was used, except that 1964 payments into the funds were used, since in this case the growth of retirement systems was not a recent phenomenon.