Tax treatment for the private pension

As increasing longevity risk, providing social security is getting more important role for governments. To protect from the financial risk in old age, the government designs and provides three pillars of pension scheme to guarantee stable pension benefits for individual.

In this study, we focus on the tax treatment for the private pension which is the third pillar of the pension scheme.

Our theoretical model estimates that when the government changes tax treatment for the private pension contributions from tax deduction to tax credit that will increase disposable income and incentive to have more savings for low income households.

We also verify our theoretical estimations with Public Financial Panel Data using quantile regression that shows the consistent results with the estimations. The data analysis also show that low income households have larger income elastic of demand for the private pension then rich households do.

Based on our research, we conclude that changing tax treatment will be an effective policy to fertilize the private pension for the low income households.