2018 TIAA
Paul A. Samuelson Award
For Outstanding Scholarly Writing
on Lifelong Financial Security

Journal of Financial Economics

Tax uncertainty and retirement savings diversification

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Abstract

We investigate the optimal saving decisions for investors with access to pre-tax (traditional) and post-tax (Roth) versions of tax-advantaged retirement accounts. The model features a progressive tax schedule and uncertainty over future tax rates. Traditional accounts are valuable for hedging retirement account performance and managing current income near tax-bracket cutoffs, whereas Roth accounts allow investors to mitigate uncertainty over future tax schedules. The optimal asset allocation policy for diversifying between traditional and Roth vehicles involves substantial economic benefits from Roth investment, especially to investors with low current income.
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Named in honor of Nobel Prize winner and former CREF Trustee Paul A. Samuelson, the Samuelson Award is presented annually by the TIAA Institute to recognize an outstanding research publication that can help increase Americans’ lifelong financial well-being. The winner is chosen by an independent panel of judges—consisting of Institute Fellows and previous award winners—and receives a $10,000 cash prize.

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Investors are required to make important decisions about their retirement savings within complex economic and regulatory environments. This paper provides a careful analysis of how an investor should optimally allocate savings across traditional and Roth tax-advantaged retirement accounts, using a model featuring a progressive tax schedule and uncertainty over future tax rates.

According to John Beshears, one of the Samuelson Award judges, “The authors corroborate some aspects of conventional wisdom, such as the recommendation that individuals with low current income should use Roth accounts. However, the authors also highlight issues that are often underappreciated, such as the importance of Roth accounts—even for high-income individuals—as a tool for managing the risk of future changes in the income tax schedule. The paper provides valuable practical guidance that will help individuals better prepare for their financial futures.”
2018 Panel of Distinguished Judges

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Harvard University

Conrad S. Ciccotello
University of Denver

Leora Friedberg
University of Virginia

Damon Jones
The University of Chicago

Melinda S. Morrill
North Carolina State University
Previous Winners

2017
John Beshears, Harvard University and NBER; James J. Choi, Yale University and NBER; David I. Laibson, Harvard University and NBER; Brigitte C. Madrian, Harvard University and NBER
“Does Aggregated Returns Disclosure Increase Portfolio Risk Taking?”
(The Review of Financial Studies, 2017)

2016
Felix Reichling, Congressional Budget Office; Kent Smetters, The Wharton School of the University of Pennsylvania
“Optimal Annuitization with Stochastic Mortality and Correlated Medical Costs”
(The American Economic Review, 2015)

2015
Raj Chetty, Stanford University and NBER; John N. Friedman, Brown University and NBER; Søren Leth-Petersen, University of Copenhagen and CEPR; Torben Heien Nielsen, University of Copenhagen; Tore Olsen, University of Copenhagen and NBER

2014
C. Eugene Steuerle, Richard B. Fisher Chair, Urban Institute
Dead Men Ruling: How to Restore Fiscal Freedom and Rescue Our Future
(The Century Foundation Press, 2014)

2013
John Chalmers, University of Oregon; Jonathan Reuter, Carroll School of Management, Boston College
“How Do Retirees Value Life Annuities? Evidence from Public Employees”
(Review of Financial Studies, 2012)

2012
Sylvester J. Schieber, Former Chair, Social Security Advisory Board
The Predictable Surprise: The Unraveling of the U.S. Retirement System
(Oxford University Press, 2012)

2011
James J. Choi, Yale School of Management; David I. Laibson, Harvard University, Department of Economics; Brigitte C. Madrian, Harvard University, John F. Kennedy School of Government
“Why Does the Law of One Price Fail? An Experiment on Index Mutual Funds”
(Review of Financial Studies, 2010)
2010
This Time is Different—Eight Centuries of Financial Folly
(Princeton University Press, 2009)

2009
George A. Akerlof, University of California, Berkeley; Robert J. Shiller, Yale University

2008
Jeffrey R. Brown, University of Illinois at Urbana-Champaign; Amy Finkelstein, Massachusetts Institute of Technology

2007
John Karl Scholz, University of Wisconsin–Madison; Ananth Seshadri, University of Wisconsin–Madison; Surachai Khitatrakun, The Urban Institute
“Are Americans Saving ‘Optimally’ for Retirement?” (Journal of Political Economy, 2006)

2006
Mark Aguiar, University of Rochester; Erik Hurst, University of Chicago, Graduate School of Business
“Consumption versus Expenditure” (Journal of Political Economy, 2005)

2005
Shlomo Benartzi, University of California, Los Angeles; Richard H. Thaler, University of Chicago
Jonathan B. Berk, University of California, Berkeley; Richard C. Green, Carnegie Mellon University

2004
Chester Spatt, Carnegie Mellon University; Robert Dammon, Carnegie Mellon University; Harold Zhang, University of Texas at Dallas
“Optimal Asset Location and Allocation with Taxable and Tax-deferred Investments” (Journal of Finance, 2004)
2003
Peter A. Diamond, Massachusetts Institute of Technology

2002
John Y. Campbell, Harvard University; Luis M. Viceira, Harvard University
Brigitte C. Madrian, University of Pennsylvania; Dennis F. Shea, Aetna, Inc.

2001
John Cochrane, University of Chicago
*Asset Pricing* (Princeton University Press, 2001)

Christian Gollier, University of Toulouse
*The Economics of Risk and Time* (The MIT Press, 2001)

2000
Nicholas Barberis, University of Chicago
“Investing for the Long Run When Returns Are Predictable” *(Journal of Finance, 2000)*

1999
John Geanakoplos, Yale University; Olivia S. Mitchell, University of Pennsylvania; Stephen P. Zeldes, Columbia University
*Prospects for Social Security Reform* (University of Pennsylvania Press, 1999)

1998
Dora L. Costa, Massachusetts Institute of Technology

1997
John Y. Campbell, Harvard University; Andrew W. Lo, Massachusetts Institute of Technology; A. Craig MacKinlay, University of Pennsylvania

1996
Robert J. Shiller, Yale University
*Macro Markets: Creating Institutions for Managing Society’s Largest Risks* (Oxford University Press, 1993)
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