How America Saves

THE COALITION TO PROTECT RETIREMENT

Submission to the Committee on Ways and Means Tax Reform Working Group on Pensions and Retirement

April 15, 2013

SUMMARY: The current structure for employer-provided and individual retirement plans has resulted in a widespread and successful program to enable working Americans at all income levels to enjoy a financially secure retirement. Congress should work to encourage and support retirement savings for American workers through preservation of the current tax structure and creation of tax incentives critical to encouraging American workers' to save for retirement.

The Coalition to Protect Retirement is composed of the leading trade associations representing retirement plan sponsors, administrators, service providers, and related financial institutions. The coalition's mission is to encourage and support retirement savings for American workers through preservation of tax incentives critical to American workers' retirement security.

Employer-sponsored and individual retirement plans are key components of our nation's retirement system. Together with Social Security and individual savings, retirement plans produce significant benefits for America's working families. Private retirement plans in the United States paid out over $3.96 trillion in benefits from 2001 through 2010, while public sector retirement plans distributed $2.82 trillion during the same period, with both playing an essential role in providing retirement income for millions of our Nation's senior citizens.[1] In 2010, there were approximately 655,000 private-sector defined contribution plans covering 73

[1] Employee Benefit Research Institute (EBRI) tabulations of data from the Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts of the United States and the Department of Labor, Bureau of Labor Statistics, Consumer Price Index.

million participants.[2] Additionally, the Pension Benefit Guaranty Corporation insured over 44 million defined benefit plan participants in 2010.[3] According to an Investment Company Institute analysis of the Survey of Consumer Finances, in 2010, eighty-one percent of near-retiree (age 55-64) households held pension assets.[4]

The current employer-sponsored retirement system is vital for American workers to be able to save for retirement. The employer-based system is designed to work together with other personal savings and the Social Security program to provide meaningful income replacement upon retirement. These retirement plans work. Currently, tax-qualified retirement plans hold $19.4 trillion in assets, of which about $11.8 trillion is in salary deferral retirement plans – 401(k)-type, IRAs, and annuities.[5] Employers have helped to make this happen – having contributed almost $3.7 trillion to public and private retirement plans from 2001 through 2010.[6]

This multitrillion dollar pool of capital helps to finance investments that enhance productivity and encourage business expansion. The tax treatment of employer-sponsored plans also encourages business owners to provide a retirement plan for their employees; essentially, giving individuals the opportunity to save. These plans cover workers across the income spectrum. Under current law, if business owners sponsor a retirement plan, they also must cover and provide benefits to lower-income and middle-income employees. More than 70 percent of American workers making between $30,000 and $50,000 a year contribute to their own retirement when covered by a retirement plan at work.[7] Many American workers also enjoy a retirement savings contribution from their employer. The Plan Sponsor Council of America survey reports that in 2011, 95.4 percent of 401(k) plans included an employer matching or non-elective contribution.[8] In 2012, 68 percent of human resource professionals surveyed said their company provided a matching program for their employees – further increasing these accounts.[9] Without the opportunity to save through payroll deduction, millions of Americans would not save for retirement. Changes to the tax treatment of retirement plans will have a negative effect on capital markets and individual savings; important elements that legislators must consider.

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[2] *Private Pension Plan Bulletin, Abstract of 2010 Form 5500 Annual Reports,* U.S. Department of Labor Employee Benefits Security Administration, November 2012.

[3] PBGC Pension Insurance Data Book, 2010, Pension Benefit Guaranty Association

[4] Brady, Kimberly Burham, and Sarah Holden, The *Success of the U.S. Retirement System,* Investment Company Institute, December 2012.

[5] *The U.S. Retirement Market, Third Quarter 2012*, ICI, December 2012.

[6] EBRI tabulations of data from the Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts of the United States and the Department of Labor, Bureau of Labor Statistics, Consumer Price Index.

[7] EBRI (2010) estimate using 2008 Panel of Survey of Income and Program Participation (SIPP) (covered by an employer plan) and EBRI estimate (not covered by an employer plan; IRA only).

[8] *55th Annual Survey: 50/50 Annual Survey, Reflecting 2011 Plan Experience,* Plan Sponsor Council of America, September 2012.

[9] *2012 Employee Benefits: The Employee Benefits Landscape in a Recovering Economy,* Society for Human Resource Management, June 2012.

Historically, Congress has supported, on a bipartisan basis the employer-based system through enhancements of many retirement vehicles. The tax incentives that Congress has created are an important impetus for individuals to save for retirement and for employers to offer plans under a voluntary system. It is important to understand that there is not a loss of tax revenue due to the deferment of money into retirement accounts. Quite the contrary - once a participant begins drawing down their account, the money is taxed and returns to the U.S. Treasury.

The Coalition to Protect Retirement believes that Congress should encourage and support retirement savings for American workers through preservation of current tax incentives critical to American workers' retirement security. With more than 10,000 Americans retiring every day, the need for tax incentives to encourage and protect retirement savings has never been greater.[10] This is especially true for Americans who are not on track to have adequate savings to support themselves once they leave the workforce. Congress should preserve existing tax incentives for individuals and employers – to help Americans attain financial security during their retirement years and to avoid the need for more federal spending to support retirees facing economic hardship.

The current structure for employer-provided and individual retirement plans has resulted in a widespread and successful program to enable working Americans at all income levels to enjoy a financially secure retirement. The Coalition hopes that this working group will consider the success of the current retirement tax structure as it weighs comprehensive tax reform legislation.

Coalition to Protect Retirement Members:
American Benefits Council
American Council of Life Insurers
American Society of Pension Professionals & Actuaries
The ERISA Industry Committee
The ESOP Association
Insured Retirement Institute
Plan Sponsor Council of America
Securities Industry and Financial Markets Association
Society for Human Resource Management

[10] D. Vera Cohn and Paul Taylor, Baby Boomers Approach 65 Glumly, Pew Research Center, December 20, 2010.