

To: Pensions/Retirement Tax Reform Working Group  
From: Corporation for Enterprise Development (CFED)  
Date: April 15, 2013  
Re: Tax Reform to Benefit Low and Moderate-Income Savers

Dear Rep. Tiberi and Rep. Kind

Thank you for the opportunity to comment on the House Ways and Means Committee's pending efforts around comprehensive tax reform.

The Corporation for Enterprise Development (CFED) is a national nonprofit 501(c)3 organization that empowers low- and moderate-income households to build and preserve assets by advancing policies and programs that help them achieve the American Dream, including buying a home, pursuing higher education, starting a business and saving for the future. As a leading source for data about household financial security and policy solutions, we promote programs on the ground and invest in social enterprises that create pathways to financial security and opportunity for millions of people.

Based on our work, which has spanned more than three decades and involved hundreds of non-profits around the country, we urge the Committee to use the opportunity presented by comprehensive tax reform to improve the savings incentives available to low-and moderate-income (LMI) households. Expanding savings opportunities for LMI households is critical both for the financial security of these households and for the future economic growth of the nation.

In particular, tax reform should: (1) reform and expand the tax benefits for savings available to LMI households; and (2) broaden LMI access to tax-preferred savings vehicles through such measures as the "auto-IRA."

As you know, the nation faces a crisis in savings that has dire implications for the financial security of America's households, including their security in retirement. Even as the economy shows signs of recovery, household financial security remains precarious.

For the second year in a row, CFED's 2013 *Assets & Opportunity Scorecard* found that nearly half (43.9%) of households—equivalent to 132.1 million people—do

not have a basic personal safety net to prepare for emergencies or future needs, such as a child's college education or homeownership. These families are considered "liquid asset poor," meaning they lack the savings to cover basic expenses for three months if unemployment, a medical emergency or other crisis leads to a loss of stable income.

This group includes a majority of the 42.2 million people who live below the official income poverty line of \$23,050 for a family of four, as well as many who would consider themselves in the middle class. One quarter (25.7%) of households earning \$55,465-\$90,000 annually have less than three months of savings.

In addition, 26% of households are "net worth asset poor," meaning that the few assets they have, such as a savings account or durable assets like a home, business or car, are overwhelmed by their debts. Many families also lack even the basic tools to save for a rainy day. Nearly a third (30.8%) of households does not have a savings account, and many (8.2%) have no mainstream financial account at all. As for retirement savings, our *Scorecard* finds that just 44.6% of workers participate in an employer-sponsored retirement savings plan.

The federal tax code already plays a pivotal role in rewarding the efforts of Americans to save and build assets. CFED's 2010 report, *Upside Down*, found that the federal government spends upwards of \$400 billion a year, primarily in the form of tax breaks, on incentives for households to build and save wealth.

"Tax time" also provides many LMI households with the best—if not only—opportunity to save. Many households eligible for the Earned Income Tax Credit (EITC) often set aside a portion of the lump sum refunds they receive toward savings, and programs such as New York City's SaveNYC have been tremendously successful in encouraging new savings at tax time. From 2008 to 2010, for example, 2,200 low-income New Yorkers opened SaveNYC savings accounts and committed to saving more than \$1.7 million.<sup>i</sup>

The current system, however, is not perfect, especially when it comes to helping LMI households in the most need of help, and comprehensive tax reform presents a major opportunity to address these flaws. CFED offers two proposals below.

**Expand and improve tax incentives for savings for LMI households.** While it is well-known that "tax expenditures" tend to benefit wealthier households who have more income to offset, the magnitude of that imbalance is especially pronounced when it comes to tax incentives for savings and wealth accumulation.

CFED's analysis in *Upside Down* found that millionaires receive an average annual tax benefit of \$95,820 for their savings efforts, while families earning \$50,000 receive \$509. Families with incomes of \$30,000 get just \$81.

Moreover, the only tax incentive specifically targeted to lower and middle-income savers under current law is the "Saver's Credit," which was enacted in 2001 and offers a modest credit on retirement contributions for LMI taxpayers. Unfortunately, this credit is also structured in a way that few households can truly benefit.

As the Aspen Institute's Initiative on Financial Security argued in its analysis of the credit:

[I]nstead of landing directly in the saver's retirement account, the current credit goes back to the taxpayer, functioning as a "refund" rather than a "match," and encouraging consumption rather than asset building. Also, while the Saver's Credit was initially conceived to be refundable, the final legislation excluded Americans with no federal income tax liability (then about a third of tax filers, now nearly half of all filers). ...

Out of those who are eligible, the existing Saver's Credit's reach is further narrowed to couples with adjusted gross incomes (AGIs) under \$57,500 and to single filers with AGIs up to \$28,750, with the maximum 50 percent match confined to couples with AGIs up to \$33,000 and single filers with AGIs up to \$16,500. These tiered income limits create "cliffs." For example, under current law, a married couple filing jointly who makes \$34,500 in 2012 will be eligible for as much as a \$1,000 credit, but a similar couple making \$34,501 will be able to claim a maximum credit of only \$400. Moreover, from 2002 through 2006, the credit was not indexed for inflation, so the number of those eligible shrunk steadily – although later legislation now provides for indexing the credit.<sup>ii</sup>

As part of comprehensive tax reform, Congress should reform the Saver's Credit by making it refundable, expanding who can benefit and allowing the direct deposit of the credit into a savings vehicle. In particular, the Committee should consider existing proposals such as HR 6472, the Saving for American Families' Future Act, introduced by Rep. Richard Neal (D-Mass.) in the 112<sup>th</sup> Congress; the Aspen's Institute's proposed [Freedom Savings Credit](#),<sup>iii</sup> which would replace the current Saver's Credit with a more streamlined and meaningful incentive; and the New America Foundation's [Financial Security Credit](#), which would replace and expand the existing credit, making it refundable while also allowing the match to go toward shorter term emergency savings such as a certificate of deposit.

Any one of these proposals would provide significant benefits for LMI families over current law. Moreover, these reforms would carry a modest price tag—roughly \$3 billion at most, according to Aspen—or a small fraction of the \$76.9 billion that the government will spend on tax breaks just for defined contribution plans in 2013, according to the Congressional [Joint Committee on Taxation](#).<sup>iv</sup>

**Expand access to employer-sponsored savings plans.** In addition to improving savings incentives for LMI households, Congress should use tax reform to improve LMI access to tax-preferred, employer-provided savings plans. For many workers, a workplace savings plan might be the only “forced” savings mechanism available. And with the advent of “auto-enrollment,” workplace savings plans are also proving to be an effective means of ensuring that workers who otherwise may not save have a means to do so.

Congress should encourage the widespread adoption of “automatic” savings while at the same time broadening access to workers who otherwise don’t have access to employer-provided savings. Specifically, Congress should use the opportunity provided in tax reform to pass the “auto-IRA.”

First proposed by Mark Iwry and the Heritage Foundation’s David John, the auto-IRA has been included in President Obama’s past budgets and introduced as legislation in past Congresses. Aimed at workers who don’t otherwise have access to an employer-provided retirement plan, the proposal would automatically enroll workers in an individual retirement account (“IRA”), with contributions automatically deducted from their paychecks.<sup>v</sup>

The benefits of the auto-IRA are potentially dramatic. One study by the Employee Benefit Research Institute (EBRI) projected that automatic enrollment would enable low-income workers to accumulate more than five times their annual earnings by age 65—compared to near zero when participation is voluntary.<sup>vi</sup>

We appreciate the Committee’s mandate in tax reform to simplify the code, eliminate waste and reduce the deficit and grow the economy. The proposals offered in this comment are consistent with these goals.

By expanding opportunities to save, Congress can help more households insulate themselves from financial insecurity, shore up the private savings system that is an equal and necessary complement to the safety net of Social Security, and even launch LMI households up the ladder of economic mobility.

In recent months, the debate over tax reform has been almost exclusively framed in terms of revenues raised versus deficit reduction, with little attention paid to the impacts of the tax code on the savings behaviors of households. Neglecting

this dimension of the tax code's impact on American families, however, would mean forfeiting a major opportunity to set the course of American household financial security in the years to come.

Respectfully submitted,

Andrea Levere, President  
Corporation for Enterprise Development

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<sup>i</sup> New York City Office of Financial Empowerment, "SaveUSA Program Implementation: Insights from the Field," April 2012.

<sup>ii</sup> Lisa Mensah, Raymond O'Mara III, Colby Farber, Robert Weinberger, "The Freedom Savings Credit: A Practical Step to Build Americans' Household Balance Sheets," Aspen Institute Initiative on Financial Security, February 2012.

<sup>iii</sup> Mensah et al.

<sup>iv</sup> Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 2011-2015, January 17, 2012.

<sup>v</sup> J. Mark Iwry and David C. John, "Pursuing Universal Retirement Security Through Automatic IRAs," Brookings Institution, July 2009.

<sup>vi</sup> Jack VanDerhei, "The Impact of Automatic Enrollment in 401(k) Plans on Future Retirement Accumulations: A Simulation Study Based on Plan Design Modifications of Large Plan Sponsors," Employee Benefit Research Institute, April 2010.