Statement of the Retirement Industry Trust Association
Working Group on Pensions and Retirement
U.S. House of Representatives Committee on Ways and Means

April 15, 2013

The Retirement Industry Trust Association (RITA) greatly appreciates the opportunity to comment to the Ways and Means Working Group on Pensions and Retirement on how we can effectively reform the tax code to benefit more Americans. RITA appreciates the efforts of Chairman Camp, Ranking Member Levin, Working Group Chair Tiberi and Vice-Chair Kind to tackle the task of improving the tax code while preserving the tax benefits of retirement savings. We strongly urge that the Committee's key goal should be a tax policy that strengthens Americans' retirement security, not weakens it.

We know that the Committee's working group on and Pensions and Retirement will hear from many voices about the importance of tax incentives for Americans to save for retirement. We write to highlight the key part that individual retirement accounts (IRAs) play **in facilitating the formation and use of capital to foster the growth of businesses that create new jobs for Americans, and to further define our objections to the current budget proposal effecting IRAs.** We recognize the importance of tax reform, but we are particularly concerned about a new proposal to create an arbitrary cap on retirement savings.

For the record, RITA is comprised of banks and state-chartered trust companies that administer more than $35 billion in self-directed retirement accounts, for more than 400,000 IRAs and pension plans. We seek to provide cost-effective and efficient administration of self-directed retirement plans.

<u>Overview</u>

The President's recently-released budget proposes to cap the amount an individual can contribute and save for their retirement. We believe that this proposed change is inconsistent with the bipartisan goal of encouraging more retirement savings, including other initiatives in the same budget. (e.g. Automatic IRA, which RITA wholeheartedly supports). Rather than attempting to address the current budget deficit, by scaling back the savings system that has essentially been in place since ERISA in 1974, we believe the Administration needs to find more ways to promote savings and thus stimulate the economy, increase GDP, and reduce deficit spending.

We would like to point out the following:

1) **It is well-known, in Washington and everywhere else, that the savings rate in the U.S. is one of the lowest in the industrialized world**. According to the Organization for Economic

Cooperation and Development (OECD),[1] savings rates in the U.S. reached a high of 5.4% in 2008 as American households were experiencing some of the worst moments of the current economic crisis and trying to pay down their debt, but started declining again in 2009 and are projected to fall back to around 2.7% in 2013 and 2014. The OECD even projects that Portugal, Spain and Italy will have higher savings rates that the U.S. through 2014. As a result of this trend, most recent Government actions related to retirement accounts have been targeted at **improving the rate of savings** by **increasing** incentives, etc. (e.g., automatic opt-in contributions for employees who are participants in defined contribution plans). Incentives for individual retirement savings are particularly important when policymakers are taking a hard look at the sustainability of Social Security and Medicare.

2) **The level of savings by most Americans is inadequate to support their financial needs in retirement.** Approximately 64% of the population has saved no more than $50,000. Rather than encouraging people to save more, the proposed arbitrary cap is likely to **discourage** saving for the long term using tax-preferred accounts.
3) The President's proposal has been described as a "$3 million cap." That is inaccurate. Rather, the proposal is to prohibit Defined Contribution plan and IRA contributions, and Defined Benefit plan accruals, once an individual has, in all of his or her retirement savings, total balances and accruals that exceed the discounted value of an annuity equal to $205,000 commencing at age 62, using mandated actuarial assumptions. **The complexity of this proposal hides some disturbing facts:** Younger working Americans will have a cap that is **much lower** than $3 million. More importantly, the cap is **extremely sensitive to changes in interest rates.** As the nonpartisan Employee Benefits Research Institute has already pointed out, when interest rates finally rise from their artificially depressed levels, the cap will drop precipitously.[2]
4) **The real impact of the cap will not be on the super-wealthy, but on small business owners and anyone that works in a small business**. Once a small business owner reaches the cap, there is no incentive to offer a retirement plan or to make any employer contribution. This discourages the creation and maintenance of employer sponsored retirement plans, which is exactly the opposite of what the Government has been trying to do for decades.
5) **IRAs represent one of the largest sources of funds available and are used to fund U.S. capital formation and to create jobs.** There is currently more than $5.3 trillion in IRAs, and large IRAs are frequently invested in both the public and private securities markets, helping to finance and sustain the growth of many of the country's new, emerging and established companies. Impacting larger IRAs will discourage this deployment and have an adverse effect on capital markets, jobs, and economic growth. As one writer recently said: **"**Long-term economic growth requires capital investment – in infrastructure, education and technology, for example, as well as in factories, business expansion, and so forth – and the **main domestic source of funds for capital investment is household savings.** Consistently high saving rates over time in a country can translate into funds being available for growth."[3]

[1] OECD Economic Outlook, June 2012 report, see http://www.oecd-ilibrary.org/content/table/2074384x-table7.
[2] See http://www.ebri.org/pdf/PR-1019.Advise2.12Apr13.RetCap-Update.pdf.
[3] Global Finance, "Household Savings Rates," see http://www.gfmag.com/tools/global-database/economic-data/12065-household-saving-rates.html#ixzz2QG8sz3sf.

RITA's Mission

RITA is a 501(c)(6) non-profit organization that has served the self-directed retirement plan industry since 1987. The association was formed to promote, through legislative and regulatory lobbying activities, the interest of trustees, custodians and administrators of self-directed retirement plans; to encourage the development and use of uniform procedures in plan administration; to provide a forum for the exchange of general information about the efficient administration of self-directed retirement plans; to improve business conditions in the industry devoted to marketing self-directed retirement plans and to stimulate personal and professional development and education among its members.

As a national trade group, RITA currently has 13 company members that administer more than $35 billion in retirement plan assets held in more than 400,000 plans. We seek to provide cost effective and efficient administration of self-directed retirement plans. Our members include banks, state-chartered trust companies and third party administrators who specialize in the custody and administration of publicly traded and non-publicly traded investments for all types of retirement plans.

Our mission is to provide a robust industry forum for providers of self-directed retirement plans holding alternative assets and to provide Americans with more secure futures by using diversified retirement accounts. Although primarily providing administration to individual retirement accounts (IRAs), our members also provide services to defined contribution plans, including 401(k) plans, simplified employee pensions (SEPs), and SIMPLE plans where such plans share the quality of being self-directed by the participant.

RITA seeks to expand savings initiatives through continued expansion of tax-deferred incentives for American workers to save for their retirement. Our members adhere to "best practices" set by the association so that savers and retirees can maximize their retirement savings while minimizing their costs.

The Importance of Self Directed Retirement Savings

IRAs were created by Congress in 1974 as part of the Employee Retirement Income Security Act (ERISA) to fill two important gaps in our system. First, IRAs provide a savings option for Americans who are self-employed or do not have access to a retirement plan at work. Second, IRAs provide a vehicle to allow Americans to preserve their retirement savings as they change jobs. The creation of the IRA has proven to be one of the most prescient innovations of ERISA.

As of the end of the 3rd quarter, 2012, there were $5.3 trillion dollars in IRA assets. This represents the largest share of the total $19.3 trillion in all retirement plans. The primary source of funds flowing into IRA accounts comes from 401(k) accounts. Since employers have shifted the burden of providing a stable retirement income from their shoulders to those of employees, it is imperative that Congress keep the existing tax incentives for saving for retirement in place.

Our association fosters economic self-reliance by providing Americans more flexibility in retirement plan asset selection (within IRS permissible parameters) with the objective of reducing reliance on Social Security as the primary source of financial support during retirement. Given the current economic downturn and the decline in the financial markets affecting retirement accounts, the need for increased diversification of retirement assets has become self-evident. Americans want more control over the management of their retirement assets.

Because retirement incentives promote savings, employer-based plans and IRAs provide a crucial source of capital to the market. Our members help Americans invest in alternative assets not served by large public exchanges. This is particularly important to provide capital for small businesses, which means **investment that creates jobs**. As the Committee has already pointed out, about half of the private sector workforce is employed by a small business.

Focusing on Long Term Retirement Security for Americans

We share the Committee's goal of a tax code that is fair, supports job creation, and encourages savings. As the Committee works on tax reform proposals, we strongly encourage you to focus on long term initiatives that will continue to encourage Americans to save for their retirement rather than for short term revenue gains to fund the Government. The Committee should keep in mind that the tax incentives for retirement savings are not *lost*, but simply *deferred*.

We applaud the leadership of Working Group Chair Tiberi, who has focused on the need for a tax policy that encourages businesses to expand and hire, and Working Group Vice Chair Kind, who has championed the need for continuous innovation by supporting our small businesses and entrepreneurs through greater access to capital and tax incentives. We agree that tax reform should lay the foundation for a globally competitive American economy and make working Americans more secure in their future. Proposals that do not meet these principles should be rejected.

We are committed to working with the Committee and its working groups in order to maintain and improve the current retirement plan savings incentives for all Americans. RITA members are available for information, research and support to Congressional staff seeking knowledge and input on legislative and regulatory issues in the retirement sector. Please contact us at 941.724.0900 or mmohr@ritaus.org.

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