The Society for Human Resource Management

Submission to the
U.S. House Committee on Ways and Means
Pensions/Retirement Working Group

April 15, 2013

**SUMMARY:** As the world's largest association devoted to human resource management, the Society for Human Resource Management (SHRM) represents more than 260,000 members in over 140 countries. As the leading authority in human resources, SHRM's membership is able to offer insight into the practical implications of changing the tax code as it relates to retirement. SHRM believes that a comprehensive and flexible benefits package is an essential tool in recruiting and retaining talented employees. Every American employee should be given the opportunity to save for retirement and protect his or her family's financial health. Tax incentives should be used to expand retirement savings, and provisions that encourage savings, such as increased contribution limits and catch-up contributions for older workers, are beneficial. Additionally, SHRM supports the current tax treatment of retirement plans. Congress should preserve the current tax treatment of retirement accounts and make only changes that would give employees and employers incentives to save for retirement.

Human resource professionals serve an important role and provide a valuable perspective in the discussion of retirement security. Every day, HR professionals manage comprehensive benefit programs for millions of American workers. Their job is unique – balancing the interests and strategic vision of the employer with the needs and equitable treatment of employees.

Retirement plans represent an important aspect of the total compensation package used by employers to recruit and retain employees. HR professionals are responsible for selecting and implementing retirement benefit plans that meet the needs of an organization's workforce. These plans play a crucial role in the current U.S. retirement system's three-pronged approach to savings: Social Security, voluntary employer-sponsored pension plans, and individual savings. 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. Employers have helped to make this happen – having contributed almost $3.5 trillion to public and private retirement plans from 2000 through 2009.

In the past, defined benefit (DB) plans were customarily the vehicle used by employers to help employees save for retirement. With the changing workforce and availability of new savings options, defined contribution (DC) plans became a popular and appealing way for employers and employees to share the responsibility for retirement savings. DC plans ensure that the participant, employer, or both contribute to the participant's individual account and that those contributions are invested according to the participant's allocation.

HR professionals know that America's traditional retirement system is being tested in new ways. The baby boom generation is approaching retirement, yet many of its members may need to continue working as their expected retirement benefits have diminished with the economic downturn that began in 2008. Possibly the catalyst to the recession, several financially troubled companies have defaulted on their DB plans and turned their obligations over to the Pension Benefit Guaranty Corporation (PBGC), resulting in a deficit of $23.3 billion for single-employer plans. In addition, several fiscally healthy companies have decided to freeze their DB plans and switch to DC plans as their company's retirement benefit. In the process of doing so, employers have looked for ways to ensure that their workforce is saving for retirement. Tools such as automatic enrollment and an employer match have increased participation and funds into retirement accounts.

According to SHRM's *2012 Employee Benefits* research report, 92 percent of employers offer a defined contribution plan. By contrast, only 21 percent of employers offer a DB plan. DC plans require greater involvement from the plan participant who, in many cases, not only must opt into the plan but also must elect a percentage deduction from pay and determine how to invest the money. Although employees are given these options, many don't understand how to invest to maximize retirement savings. Other workers are not willing or able to put aside wages for the future that they need to cover expenses today. Employers that contribute to their employees' defined contribution plan or match their employees' contributions help to alleviate this burden. In 2012, 62 percent of employers offered a match to their employees and 39 percent automatically enrolled new employees into their plan.

Additionally, whereas the Social Security system was designed to provide safeguards against destitution and dependency, the system is in jeopardy of not being able to fulfill future obligations. Currently, 98 percent of all workers are in jobs covered by the Social Security Administration and one in six Americans receives a Social Security benefit. The Social Security system, however, faces challenges to its solvency as the baby boom generation begins retiring and the country, for the first time, faces the reality of a smaller pool of workers supporting a larger group of retirees. Under current demographic assumptions, the Social Security trust fund program costs are expected to exceed non-interest income from 2011 onward. Due to interest earned, the program will run an overall surplus that adds to the fund through the end of 2021. By 2033, the fund is expected to be exhausted. Thereafter, payroll taxes are projected to only cover approximately 75% of program obligations.

SHRM believes that every American worker should be afforded the opportunity to save for their own retirement. The government should facilitate and encourage voluntary employer-sponsored plans as well as individual savings through consistent tax incentives and simplified regulations. Retirement is a shared responsibility between individuals and government. Individuals have primary responsibility to evaluate their retirement needs, and to plan and save accordingly. Government has the responsibility to provide Social Security benefits and keep the trust fund solvent as a safety net of basic, guaranteed income.

Furthermore, to prevent the need for non-qualified retirement plans, overly complex regulations, and excessive plan administration costs, all established limits on the dollar amounts that may be deferred for retirement income should be eliminated. In the absence of this approach, Congress should work to preserve the current tax limits. The current tax treatment of retirement plans is essential in maintaining participation levels, as well as incentivizing employers to provide, and employees to take advantage of, retirement accounts.

Additionally, tax incentives should be used as vehicles to expand retirement savings. Provisions that encourage savings, such as increased contribution limits, catch-up contributions for older workers, and credits for low-income workers who save, are beneficial. Tax incentives should be provided to employers that sponsor plans and to individual savings accounts on an equitable basis.

In closing, SHRM appreciates the working group consulting with various stakeholders on this important issue. We hope that you will use SHRM as a resource as you continue to gather information related to tax reform and retirement security.

POC: Kathleen A. Coulombe, Senior Associate, Government Relations
Society for Human Resource Management
Government Affairs
1800 Duke Street
Alexandria, VA 22314-3499 USA
Phone: 703-535-6061
Fax: 703-535-6492