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Comments to the Committee on Ways and Means Working Group on Pensions and Retirement

April 10, 2013

Getting the American economy back on track means strengthening and preserving the retirement nest-eggs of American households.

By examining the tax code, the Ways and Means Committee has focused on the most effective lever to strengthen a retirement savings system propped up by individuals' short-term sacrifices. It is of bipartisan interest to use tax reform to repair and strengthen the retirement savings system as a step to steer both household and national balance sheets toward a stronger financial future. For ten years, the Aspen Institute Initiative on Financial Security (Aspen IFS) has focused on the best policies and practices that help American households – particularly those of low- and middle-incomes – to save, invest, and own. Aspen IFS believes that every worker who is willing to sacrifice some income today to build up wealth for retirement security and resiliency to weather tougher times deserves the opportunity and encouragement to do so.

The majority of low- and middle-income workers have effectively no tax incentive and fewer workplace opportunities to save for retirement.

The Retirement Contributions Savings Credit (Saver's Credit), first available in 2002, is often cited as the retirement policy that expands savings incentives to lower- and middle-class workers, as it was designed to do. Yet, the Saver's Credit is a ghost of its original intent and fails to reach its targeted population who would most strongly respond to and benefit from this policy. The Saver's Credit is non-refundable and therefore excludes the more than 40% of Americans who have no net federal tax liability. Moreover, the current Saver's Credit goes back to the taxpayer for current needs instead of landing directly in the saver's retirement account, functioning as an offset rather than as a match and encouraging consumption rather than retirement security.

Employer-sponsored plans are the most effective tools to incentivize American workers to set aside money for retirement. Adding automatic enrollment features to workplace savings plans has successfully increased participation in qualified savings plans.[1] Yet, current policy fails to seize these proven best practices to give the 75 million workers whose employers do not offer workplace savings plans these effectual tools to plan for their own retirements.

Tax reform offers the opportunity to transform coverage rates and account balances to enhance workers' retirement security and mitigate the lag on the economy.

Updating the Saver's Credit to work as originally intended is a cost-effective way to incentivize American workers to set aside their own money for retirement. Tax reform presents the opportunity to reform the current Saver's Credit with a $1 credit deposited directly into an account for every $2 of savings in a 401(k), IRA, or other qualified savings account. A refundable Saver's Credit would also increase the national savings rate.

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[1] Adding automatic enrollment features to qualified savings plans has successfully increased participation rates in 401k(s) and other qualified savings plans to over 80% of eligible employees from every major income, age, racial or ethnic, and gender demographic. *See Trends in 401(k) Plans and Retirement Rewards*, WorldatWork and the American Benefits Institute, March 2013, p. 7.
Available at: http://www.worldatwork.org/waw/adimLink?id=71489.

Aspen IFS analysis found that while personal savings is only one component of overall national savings, increasing personal savings by only about $10 per week ($500 per year) among the bottom 40 percent of households would increase overall net national savings by 26 percent.[2]

Tax reform also presents the opportunity to initiate automatic retirement savings for all workers who currently do not enjoy the benefits of workplace savings plans. Policies such as the Automatic IRA, which has been introduced most recently by Congressman Neal (D, MA), maximize the successful impact of automatic enrollment to cover the 75 million American workers whose employers do not offer workplace savings plans.[3] Employees who are currently not covered by workplace savings plans would have a percentage of their paychecks automatically deducted and transferred into an Individual Retirement Account (IRA). Employers, particularly small employers, have valid reasons for not currently offering workplace savings plans, including administrative costs, contribution costs, and fiduciary worries. The Automatic IRA policy accounts for these concerns, and employers would not face any contribution costs or fiduciary concerns and would receive tax credits to reimburse the small administrative costs that they would incur.

A refundable Saver's Credit deposited directly into a saver's account as well as an Automatic IRA policy to mimic the success of automatic enrollment in workplace savings plans are simple, sensible, and cost-effective reforms that would target those Americans who are least likely to currently save and transform the savings landscape in the United States.[4]

Achieving financial security is a lifelong endeavor and tax reform offers an opportunity to take practical steps to ensure that all Americans have the basic tools to save.

All American workers deserve the opportunity to build lifelong financial security for themselves and for their families. Savings is not only necessary to build financial security to last throughout longer and longer periods of retirement, but also for smart investments in children and their education, for homeownership, and for starting new businesses. Congress should use the tax reform moment not to drain resources out of a valuable system, but to ensure that the basics are in place – that every American worker has the opportunity and incentive to develop and strengthen account balances to finance retirement.

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2 Suzanne Nora Johnson, Lisa Mensah, and Eugene Steuerle, *Savings in America: Building Opportunities for All*, Goldman Sachs and the Aspen Institute Initiative on Financial Security, Spring 2006, p.13. Available at: http://www.aspeninstitute.org/sites/default/files/content/docs/ifs/IFSSAVINGSINAMERICAWHITEPAPER.PDF.

3 H.R. 4049, The Automatic IRA Act of 2012, introduced February 16, 2012. Available at: http://www.gpo.gov/fdsys/pkg/BILLS-112hr4049ih/pdf/BILLS-112hr4049ih.pdf.

4 Congressman Neal most recently introduced a refundable saver's credit in the H.R. 837, Savings for American Families' Future Act of 2013, introduced February 23, 2013. Available at: http://www.gpo.gov/fdsys/pkg/BILLS-113hr837ih/pdf/BILLS-113hr837ih.pdf.