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May 10, 2012

The Honorable Dave Camp
The Honorable Sander Levin
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

RE: Corporation for Enterprise Development, Letter of Record for the April 16, 2012 hearing on "Tax Reform and Tax-Favored Retirement Accounts"

Dear Chairman Camp and Ranking Member Levin,

The Corporation for Enterprise Development (CFED) would like to thank the House Committee on Ways and Means for holding its hearing on retirement savings and tax reform. The retirement security of American households is imperative to the long-term stability of the American middle class. We appreciate that the Committee is exploring options within comprehensive tax reform for improving retirement savings options for Americans.

CFED advocates for tax policies that encourage and enable all Americans, regardless of income, to save for retirement. It is a well-known fact that most Americans put aside too few resources for their retirement, despite the importance of retirement savings for financial security during their senior years. According to the Employee Benefit Research Institute (EBRI), just 14 percent of Americans are very confident that they will have enough money to live comfortably in retirement[1]. Those without savings set aside for retirement tend to be the most vulnerable populations: poor health, lower educational attainment, Latino and African-American workers and part-time employees. EBRI reports that 60 percent of workers report that the total value of their household's savings and investments is less than $25,000, excluding the value of their primary home and any defined benefit plans.

These figures are dismal and discouraging; however, there are plans in place designed to help Americans save for their retirement. Employer-sponsored retirement plans are often the easiest way for workers to save, with pre-tax contributions and employer payroll-deductions. These policies have greatly contributed to families increasing their retirement plan participation and savings rates. CFED would like these accounts to be maintained; the ability for Americans to save for retirement is imperative. Unfortunately, these policies

[1] Ruth Helman, Mathew Greenwald and Associates, Craig Copeland and Jack VanDerhei, *The 2012 Retirement Confidence Survey: Job Insecurity, Debt Weigh on Retirement Confidence, Savings,* EBRI Issue Brief #369, March 2012 (Employee Benefit Research Institute, 2012).

could use reform; in their current design they disproportionately go to the top percent of earners and largely miss middle and lower-income families.

In fact, the overwhelming majority of tax payers who benefit from federal incentives for retirement fall disproportionately in the higher tax brackets. Roughly 70 percent of workers who earn $50,000 or more participate in an employer-retirement plan while only one-quarter of workers who earn between $15,000 and $19,999 participate. Those who earn less are even less likely to participate[2]. This is critical because every dollar not saved for retirement reduces post-retirement income or extends the number of years that must be worked. A median worker who is 35 years from retirement will have to work an additional year for every $2,350 not saved for retirement. Insufficient retirement savings increases the likelihood of income poverty and a dependence on public assistance during an individual's senior years. The retirement tax policies that are in place that benefit the wealthy and skip the middle class and working poor are not only unfair but unproductive. They miss the savings capability and needs of low- and moderate-income individuals and hurt the economic security and mobility of American households and the American Economy.

The discussion around how to improve the participation and savings rates for all Americans through comprehensive tax reform is incomplete without a fair and honest discussion on installing a truly universal savings and investment infrastructure and incentive for low-income families. The best way to effectively incent retirement savings for working class Americans is to create a refundable tax credit for those who set aside money in tax-preferred retirement plans.

As you know, there is already a tax credit that is designed to incent retirement savings, called the Saver's Credit, which was designed to provide a modest retirement saving incentive for low- and moderate-income households. However, the current Saver's Credit is highly underutilized. This is because the credit is only available to offset a taxpayer's income tax liability, thus making credit unavailable to the 50 million working households who pay payroll taxes but have no income tax liability[3]. In a universe of more than 50 million eligible tax filers, only 6 million Americans claimed the credit in 2009. More could be done to expand the Saver's Credit and tax credits similar to it in order to reach the majority of low- and moderate-income households.

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[2] Beadsie Woo, Ida Rademacher and Jillien Meier, *Upside Down: The $400 Billion Federal Asset Budget* (CFED and Annie E. Casey Foundation, 2010).

[3] *Split Refund and Saver's Credit: Two Better Ways to Save for Retirement*, The Retirement Security Project, February 2008.

CFED supports the concept of a refundable tax credit designed for savings, whether that tax credit is an expanded Saver's Credit or proposals like the Freedom Savings Credit[4], designed by the Aspen Institute Initiative on Financial Security. There are multiple benefits of installing a refundable credit for savings into the U.S. Tax Code:

- Asset-building subsidies are primarily embedding in the U.S. Tax Code. The President's Fiscal Year 2013 Budget proposed a total amount of $548 billion in resources to promote federal asset-building opportunities, including $165 billion for retirement security; of the $548 billion, fully $508 billion will consist of tax subsidies[5].

- The tax filing process is an amazing opportunity for the majority of low-income households. Many households do not have a complete review of their finances until this critical time of year. Through payroll withholding and refundable tax credits, families receive an average refund of approximately $3,000, according to 2008 tax data. Some portion of this lump sum of money, sometimes the largest sum of funds that American families will receive all year, could be saved and used for asset-development, like funding a ROTH IRA or another retirement savings vehicle.

Creating a refundable tax credit for savings that reaches the bottom 60 percent of households that are asset-poor (e.g. households without sufficient savings to survive at the federal poverty level without income), would allow families to slowly improve their financial security through our already established federal tax code, build savings and invest in assets, which would help households become more financially resilient and successful.

CFED also supports policies, like the Automatic IRA Act of 2012 (H.R. 4049) introduced by Congressman Richard Neal (D-MA), that support automatic enrollment as a method of increasing retirement participation. Automatic enrollment is a simple, cost-effective way to help Americans save for retirement through payroll deductions for most workers who currently do not have an employer-provided retirement plan. According to the Retirement Security Project (RSP), automatic enrollment dramatically boosts 401(k) participation rates from a national average of about 75 percent of eligible employees to between 85 and 95 percent[6]. In addition, RSP estimates that automatic IRA initiatives could increase net national savings by nearly $8 billion annually. Automatic enrollment would provide a

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[4] Lisa Mensah, Raymond O'Mara III, Colby Farber, Robert Weinberger, *The Freedom Savings Credit: A Practical Step to Build Americans' Household Balance Sheets,* The Aspen Institute, Initiative on Financial Security (February 2012).
[5] Reid Cramer, Rachel Black and Justin King. *The Assets Report of 2012, An Assessment of the Federal "Asset-Building" Budget,* April 2012 (New America Foundation, 2012).
[6] *Automatic IRAs: Extending Retirement Saving Opportunities to 78 Million More American Workers.* The Retirement Security Project (August 2009).

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secure retirement option for workers, lessen dependence on Social Security and present an opportunity to lift low-income working families out of poverty during retirement.

We would like to thank the Committee again for bringing to the table the important issue of retirement savings and participation for American families during this important discussion of comprehensive tax reform. We ask the Committee to consider proposals to establish refundable tax credits designed for savings for low-income households as well as policies that would simplify the process of saving for retirement.

Sincerely,

Ida Rademacher
Chief Program Officer