How America Saves

THE COALITION TO PROTECT RETIREMENT

Submission to the
Senate Finance Committee
Savings and Investment Working Group

April 15, 2015

The Coalition to Protect Retirement (CPR) commends the working group for its dedication to reform the tax code. As the working group moves forward with tax reform discussions, we hope that you will utilize CPR as a resource, as we represent a broad group of stakeholders that can provide you with a unique perspective on potential impacts of changes to the system.

CPR believes that Congress should encourage retirement savings for American workers through the preservation and enhancement of current tax incentives. CPR is composed of the leading trade associations representing retirement plan sponsors, administrators, service providers, and related financial institutions, and includes: American Benefits Council, American Council of Life Insurers, American Retirement Association, The ERISA Industry Committee, ESOP Association, Insured Retirement Institute, Investment Company Institute, Plan Sponsor Council of America, Securities Industry and Financial Markets Association, and the Society for Human Resource Management. The Coalition's mission is to encourage and support retirement savings for American workers through preservation of tax incentives critical to American workers' retirement security.

The current structure for employer-provided and individual retirement plans has resulted in a widespread and successful program that enables working Americans at all income levels to enjoy a financially secure retirement. Congress should work to encourage and support retirement savings for American workers through the preservation of the current tax structure and creation of tax incentives critical to encouraging American workers to save for retirement.

Employer-sponsored and individual retirement plans are key components of our nation's retirement system. Together with Social Security and individual savings, retirement plans produce significant benefits for America's working families. Private retirement plans in the United States paid out over $4.70 trillion in benefits from 2003 through 2012, and United States public sector plans paid out $3.66 trillion during the same period, both playing an essential role

in providing retirement income for millions of our nation's seniors.[1] In 2011, there were approximately 638,000 private-sector defined contribution plans covering 88.7 million participants.[2] Additionally, the Pension Benefit Guaranty Corporation insured over 42 million defined benefit plan participants in 2013.[3] According to an Investment Company Institute analysis of the Survey of Consumer Finances, in 2013, 81 percent of near-retiree households (working households age 55-64) had accumulated retirement assets, accrued pension benefits, or both.[4]

The current employer-sponsored retirement system is vital for American workers to be able to save for retirement. The employer-based system is designed to work with other personal savings and the Social Security program to provide meaningful income replacement upon retirement. These retirement plans work. Currently, there are $24.7 trillion of assets in the United States retirement system, of which about $16.2 trillion is in salary deferral retirement plans – 401(k)-type, IRAs, and annuities.[5] Employers have helped to make this happen – having contributed almost $4.9 trillion to public and private retirement plans from 2003 through 2012.[6]

This multitrillion dollar pool of capital also helps to finance investments that enhance productivity and encourage business expansion. The tax treatment of employer-sponsored plans encourages business owners to provide a retirement plan for their employees; essentially, giving individuals the opportunity to save. These plans cover workers across the income spectrum. Under current law, if business owners sponsor a retirement plan, they also must cover and provide benefits to lower-income and middle-income employees. More than 70 percent of American workers making between $30,000 and $50,000 a year contribute to their own retirement when covered by a retirement plan at work.[7] Many American workers also enjoy a retirement savings contribution from their employer. The Plan Sponsor Council of America survey reports that in 2013, nearly 96 percent of companies made a contribution to their employee's retirement plan.[8] In 2014, 74 percent of human resource professionals surveyed said their company provided a matching program for their employees – further

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Congress has supported enhancements to the employer-based retirement savings system through a series of bipartisan changes to law. The tax incentives that Congress has created are an important impetus for individuals to save for retirement and for employers to offer plans under a voluntary system. Retirement tax incentives are fundamentally different from other tax incentives because they represent a *deferral* of tax, not a permanent exclusion of tax. Tax on retirement savings is paid, at ordinary income rates, upon distribution. Not appreciating this distinction can dramatically overstate the revenue effects of retirement savings plans.

The Coalition to Protect Retirement believes that Congress should encourage and support retirement savings for American workers through the preservation of current tax incentives critical to American workers' retirement security. With more than 10,000 Americans retiring every day, the need for tax incentives to encourage and protect retirement savings has never been greater.[10] This is especially true for Americans who are not on track to have adequate savings to support themselves once they leave the workforce. Congress should preserve existing tax incentives for individuals and employers to help Americans attain financial security during their retirement years and to avoid the need for more federal spending to support retirees facing economic hardship.

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