ASPPA Testifies In Support Of Retirement Savings Tax Incentives

April 17, 2012

ARLING*TON, VA, (April 17, 2012) – The following are highlights from the testimony of Judy A. Miller, Director of Retirement Policy for the American Society of Pension Professionals & Actuaries (ASPPA), before a hearing of the U.S. House Ways and Means Committee regarding Tax Reform and Tax-Favored Retirement Accounts on Tuesday April 17 at 10:00 am.*

"Americans depend on their employee sponsored plans to save for retirement. Two key features distinguish retirement savings tax incentives from other incentives in the U.S. Tax Code–the **deferral nature** of the incentive, and the **non-discrimination rules** that make employer-sponsored plans very efficient at delivering benefits across the income spectrum. Simply put, tax incentives for retirement savings play an important role in encouraging employers to sponsor and maintain retirement plans and encouraging participants to contribute to such plans.

Deduction Not Deferral
First, unlike other individual tax incentives, incentives for retirement savings are deferrals, not permanent exclusions. When employer-paid health benefits are excluded from income, or mortgage interest is deducted, those amounts will never be taxed. With a traditional retirement savings account, no income taxes are paid on contributions or investment earnings the year they are credited to that account.

However, both contributions and earnings are included in taxable income when the amounts are distributed from the plan at retirement. In other words, every single dollar excluded from income now because its retirement savings, will be included in income in a future year. Since most of those future years are outside the budget window, looking at the so-called "tax expenditure" for defined contribution retirement plans on a cash basis over a budget window greatly overstates the cost of the incentive. The faulty analysis dramatically exaggerates the real cost of the tax incentives for retirement plans. Using present-value analysis accurately reflects the true cost—former Joint Committee on Taxation (JCT) economist Judy Xanthopoulos and tax attorney Mary M. Schmitt calculate that present-value estimates of the five-year cost of retirement savings tax expenditure are 54 percent lower than those of the JCT and the Treasury's Department's Office of Tax Analysis (OTA). (*"Retirement Savings and Tax Expenditure Estimates" April 2012*).

Non-Discrimination Rules Ensures Everyone Saves
The second distinguishing feature is the non-discrimination rules that make sure incentives for employer-sponsored retirement plans don't discriminate in favor of the highly paid, and limit pay that can be counted toward benefits. As a result, this tax incentive is more progressive than the current progressive tax code. Households making less than $100,000 pay 26% of income taxes, but get over 60% of the benefit of this tax incentive. And this analysis actually understates the benefit for these groups because it ignores the fact that a good part of a small business owner's "tax savings" for a year is actually transferred to other employees in the form of contributions.

Saving at Work—Works

Data clearly shows that the key to promoting retirement security is workplace savings. Over 70% of workers earning from $30,000-$50,000 will participate in a plan at work, but less than 5% will save through an IRA on their own. Data also shows the current tax incentives have been very successful at encouraging workplace retirement plans. Bureau of Labor Statistics data shows 78 percent of all full time workers have access to a workplace retirement plan, with 84 percent of those workers participating. Almost 80% coverage is a success story. More needs to be done, but the Committee should build on the successes of the system, and be mindful that Americans save for retirement at work. We support the auto-IRA proposal in Mr. Neal's bill, for example, as a way to expand workplace savings by building on the current system.

Simplification

One of the questions posed for this hearing is whether or not there are too many types of plans. The simple answer is 'No". A proposal to combine all defined contribution plans into a single type of plan might look like simplification on paper, but in practice combining 401(k), 403(b) and 457(b)'s into a single type of plan would disrupt savings for employees of state and local governments and other nonprofits. And believe me, when you talk to an employer about setting up a plan, options and flexibility are not the enemy. One size definitely does not fit all. That's not to say simplification is not needed. For example, we support the *Small Business Pension Promotion Act*, sponsored by Representatives Gerlach, Kind and others. We would be pleased to work with the Committee on these and other simplifications.

Improve Don't Dismantle

Recent tax reform proposals include dramatic cuts in the maximum contributions limits, limits on the value of the current year's exclusion for households making over a certain dollar amount, or conversion of the current year's income exclusion to a credit. All of these proposals would reduce the incentive for small business owners to sponsor a workplace retirement plan, and would be a big step in the wrong direction."

More information on ASPPA's position on Retirement Savings proposals:

- Read ASPPA's written and oral testimony before House Ways and Means Committee.
- Read our research "*Retirement Savings and Tax Expenditure Estimates*," April 2012
- View our infographic "Government's Bad Math Could Hurt 401(k)s"

About ASPPA: *The American Society of Pension Professionals & Actuaries (ASPPA) is a national organization of more than 8,500 retirement plan and benefits professionals that serves as the educator, voice, and advocate for the employer-based retirement system. ASPPA members are administrators, actuaries, advisors, attorneys, accountants, and other financial services professionals who provide consulting and administrative services for qualified retirement plans. www.asppa.org*