How America Saves

THE COALITION TO PROTECT RETIREMENT

September 13, 2017

The Honorable Kevin Brady
Chairman, House Committee on Ways and Means
301 Cannon House Office Building
Washington, DC 20515

Dear Chairman Brady:

The Coalition to Protect Retirement (CPR)—composed of the leading trade associations representing retirement plan sponsors, administrators, service providers, and related financial institutions—appreciates your leadership as you develop tax reform. The Coalition would greatly appreciate the opportunity to meet with you, committee staff, and/or members of your tax reform working group to provide input and discuss our concerns as this process progresses.

The Coalition's mission is to encourage and support retirement savings for American workers through preservation of tax incentives critical to retirement security. The coalition includes: American Benefits Council, American Council of Life Insurers, American Retirement Association, The ERISA Industry Committee, The 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.

Current incentives are very successful in fostering retirement security, capital formation, economic growth and limiting pressure on government programs. With 10,000 Americans reaching retirement age every day between now and 2030, the need for tax incentives to encourage and protect retirement savings has never been greater.[1] The current tax structure for employer-sponsored and individual retirement plans and other private-sector savings solutions have resulted in a successful system that provides financial security in retirement for Americans at all income levels. This same tax structure simultaneously contributes very substantially to capital formation and economic growth.

[1] Insured Retirement Institute Fact Book 2016: *A Guide to Information, Trends, and Data in the Retirement Income Industry*.

As of June 2017, retirement assets total $26.1 trillion—accounting for 34 percent of all household assets in the United States.[2] This multitrillion dollar pool of capital also helps to finance investments that enhance productivity and encourage business expansion.

Existing retirement savings incentives have been a critical impetus for individuals to save and for employers to offer and contribute to public and private-sector retirement plans. The pre-tax treatment of retirement savings plans is a key incentive that powers saving for the majority of American workers. Current law permits a choice between pre-tax contributions and after-tax (Roth) contributions. Any proposal that removes this choice by requiring retirement savings contributions to be made after-tax represents a major change in the system which needs to be thoroughly studied and socialized with taxpayers.

Additionally, it is vital to continue strong tax incentives for employers to maintain retirement plans for their workforce. According to the 2016 SHRM Benefits Survey, 94 percent of employers who responded offered a retirement savings plan in their workplace.[3] A 2016 survey reports that for households with defined contribution plans, tax treatment is "a big incentive to contribute" for 80 percent of households, with 44 percent of households indicating "I probably wouldn't save for retirement if I didn't have a retirement plan at work."[4]

Retirement tax incentives also limit demands for potential increases in federal spending on safety-net government programs. Finally, tax deferral differs fundamentally from other tax incentives because it is not a permanent exclusion from tax.[5] Income tax on retirement savings generally is paid, at ordinary income rates, upon distribution. Not appreciating this distinction can lead to inaccurate perceptions of long-term revenue effects of changing the tax treatment of retirement savings.

The House tax reform Blueprint indicates that proposals could be considered as part of tax reform that would consolidate and reform retirement savings provisions and that would create new, more general savings vehicles. It is the experience of the members of the Coalition that the multiple workplace retirement plan options in the current tax code, provide employers and employees the ability to tailor their plans to meet the needs of their workforce. Our view is that the current system results in more attractive retirement savings options for American businesses, resulting in broader and deeper coverage. The Coalition is open to potential simplification ideas that do not negatively impact successful retirement savings plans.

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[2] Investment Company Institute*, The US Retirement Market, Third Quarter 2016 [Fourth Quarter 2017].*

[3] The Society for Human Resource Management, *2016 SHRM Benefits Survey*, June 2016.

[4] Investment Company Institute. "Americans Views on Defined Contribution Plan Saving, 2016," *ICI Research Report* (February 2017).

[5] See Investment Company Institute, "Retirement Plan Contributions Are Tax-Deferred—Not Tax-Free," *ICI Viewpoints* (September 16, 2013).

If tax reform includes efforts to enhance retirement savings, the Coalition suggests reviewing several proposals that already have bipartisan support that build on the success of the current system. Here are five examples:[6]

- Remove barriers that prevent small businesses from offering retirement plans through multiple employer plans (MEPs) and providing a new deferral-only safe harbor plan option;
- Improve the ERISA safe harbor to provide greater certainty for plan sponsors when selecting guaranteed lifetime income products for their retirement plans;
- Modernize the rules for electronic delivery of plan notices and disclosures to participants
- Increase the age at which required minimum distributions (RMDs) must begin to reflect increases in life expectancy
- Make the Small Employer Pension Plan Start-up Credit more generous and include a bonus credit for automatic enrollment.

Finally, the Coalition has concerns about an idea that is frequently considered in tax reform—potential movement from a highly successful retirement system based on tax deferred savings incentives to Roth accounts that rely instead on tax-exempt distributions. We urge caution because of the risk of negative behavioral changes that could impair retirement security.

Thank you for your consideration of the Coalition input on these vital issues. We will reach out in the near future to try to schedule meetings with you, Ways and Means Committee staff, and/or members of your tax reform working group.

Sincerely,

The Coalition to Protect Retirement

Coalition to Protect Retirement Members:
American Benefits Council
American Council of Life Insurers
American Retirement Association
The ERISA Industry Committee
The ESOP Association
Insured Retirement Institute
Investment Company Institute
Securities Industry and Financial Markets Association
Society for Human Resource Management

Cc: The Honorable Richard Neal. Ranking Member, House Committee on Ways and Means

[6] A package of retirement system improvements was approved by Senate Finance Committee on September 21, 2016 on a 26-0 bipartisan vote as part of the Retirement Enhancement Savings Act of 2016.