

# THE ASPPA Journal

ASPPA's Quarterly Journal for Actuaries, Consultants, Administrators and Other Retirement Plan Professionals

## WASHINGTON UPDATE



### Retirement Policy in a World of Deficits

by Brian H. Graff, Esq., APM

Continuing political support for voluntary employer-provided retirement benefits could be seriously weakened in a world of burgeoning deficits that Congressman Paul Ryan (R-Wis.), incoming chairman of the House Budget Committee, and others have articulated. Whether we like it or not, those deficits exist, and tax expenditures clearly are part of the revenue picture that the National Commission on Fiscal Responsibility and Reform (“Commission”) examined at the request of President Obama.

In its recommendations, that Commission proposed to either eliminate all the incentives for retirement savings or, alternatively, severely cut the annual limits on contributions. Specifically, the Commission’s “Zero-Option Plan” would eliminate the deduction for retirement savings completely. Its alternative would reduce the 415(c) limit to the lesser of 20 percent of pay or \$20,000. Such proposals, if enacted, would clearly decimate workplace savings programs. Why would they propose such a thing?

#### We’re Number One

Recent estimates from the Joint Committee on Taxation (JCT) show that taxes deferred under workplace retirement plans, combined with deferred taxes on rollover individual retirement accounts, will make tax incentives for retirement savings the number one tax expenditure in 2013 (Chart 1). In case you are wondering, being



number one in this case is not a good thing. First and foremost, it means that in a world of deficits we get a lot of unwanted and unwarranted attention.

There are some unfortunate and significant distortions associated with the perceived “cost” of tax incentives for employers to provide retirement benefits. Keep in mind that tax expenditures to promote retirement benefits are not like the tax expenditures for health benefits. The health care benefits offered to participants in a health plan are not taxed—not this year and not in the future.

#### Budget Scoring

Retirement benefits, by contrast, will ultimately be taxed. However, because of how tax spending is scored in Washington, DC, we don’t get credit for those taxes. What goes out counts against us, but what comes in later outside the

ten-year federal budget window we don't get credit for. As far as Congress is concerned, the concept of present value is misunderstood or is ignored.

Federal budget scoring produces a significant distortion in tax policy. If the voluntary employer-sponsored retirement system were to get credit for the amount of future tax dollars it generates, many of the tax expenditures that promote retirement savings would cost much less than they appear to cost under budget scoring procedures used by the Joint Committee on Taxation. Because of that distortion, however, Congress tends to do much less to promote retirement savings than it would if tax incentives for retirement savings scored better than they do.

In 2008, ASPPA did a study with the US Chamber of Commerce and others to show the effect of tax expenditures to promote employer-provided retirement benefits. The conclusion of that research was that the measurement of tax expenditures for retirement savings should be based on the present value of the expenditure. We are currently doing a follow-up study that will reveal the true "cost" of retirement

saving incentives. Nevertheless, members of Congress are locked into a mindset of cash-basis expense reporting and will likely never appreciate the fact that, unlike the other tax expenditures, the expenditures for retirement benefits are tax deferrals and not tax exclusions.

### Target of Critics

The voluntary employer-provided retirement system has attracted frequent criticism during the past few years. Much of the criticism grew out of the market adjustment that occurred in 2008-2009, when many people lost a considerable amount of their retirement savings in employer-provided plans.

Particularly for workers in their late 50s and early 60s who had an expectation of a certain amount of savings, it was devastating to see their account balances down by 20 to 30 percent. The market adjustment led to many questions about what is working and what is not working in the voluntary retirement system.

#### JCT January 2010 Estimates\*

Tax Expenditure	Billions			
	2010	2011	2012	2013
Employer-provided health exclusion	\$ 106.6	\$ 115.2	\$ 122.0	\$ 130.0
Home mortgage deduction	\$ 103.7	\$ 119.9	\$ 128.2	\$ 134.7
Defined contribution plans	\$ 29.6	\$ 32.6	\$ 39.8	\$ 49.7
Defined benefit plans	\$ 37.5	\$ 51.5	\$ 66.3	\$ 82.0
Self-employed pension plans	\$ 12.9	\$ 16.2	\$ 17.3	\$ 17.8
Total ER-provided retirement plans	\$ 80.0	\$ 100.3	\$ 123.4	\$ 149.5
Traditional IRAs	\$ 21.5	\$ 13.4	\$ 14.3	\$ 18.5
Roth IRAs	\$ 3.6	\$ 4.1	\$ 4.9	\$ 5.6
Saver's credit	\$ 0.9	\$ 0.9	\$ 1.0	\$ 1.0

\*Chart 1 See <http://www.jct.gov/publications.html?func=startdown&id=3642>

Fortunately, since then, the market has rebounded. Many of those accounts have recovered, but a question, a fair one, still lingers: Why do so many working Americans have no private savings or retirement benefits through their employers?

### Retirement Plan Data

We do know, and there is widespread agreement on this claim, that workplace retirement savings plans work. Data provided to ASPPA by the Employee Benefit Research Institute (EBRI) on 401(k), 403(b) and 457 retirement savings plans show that employees earning between \$30,000 and \$50,000 are more than 15 times (71.5 percent vs. 4.6 percent) more likely to save for retirement if they can do so through an employer-sponsored defined contribution plan than they are if their only option is to save on their own through an IRA.

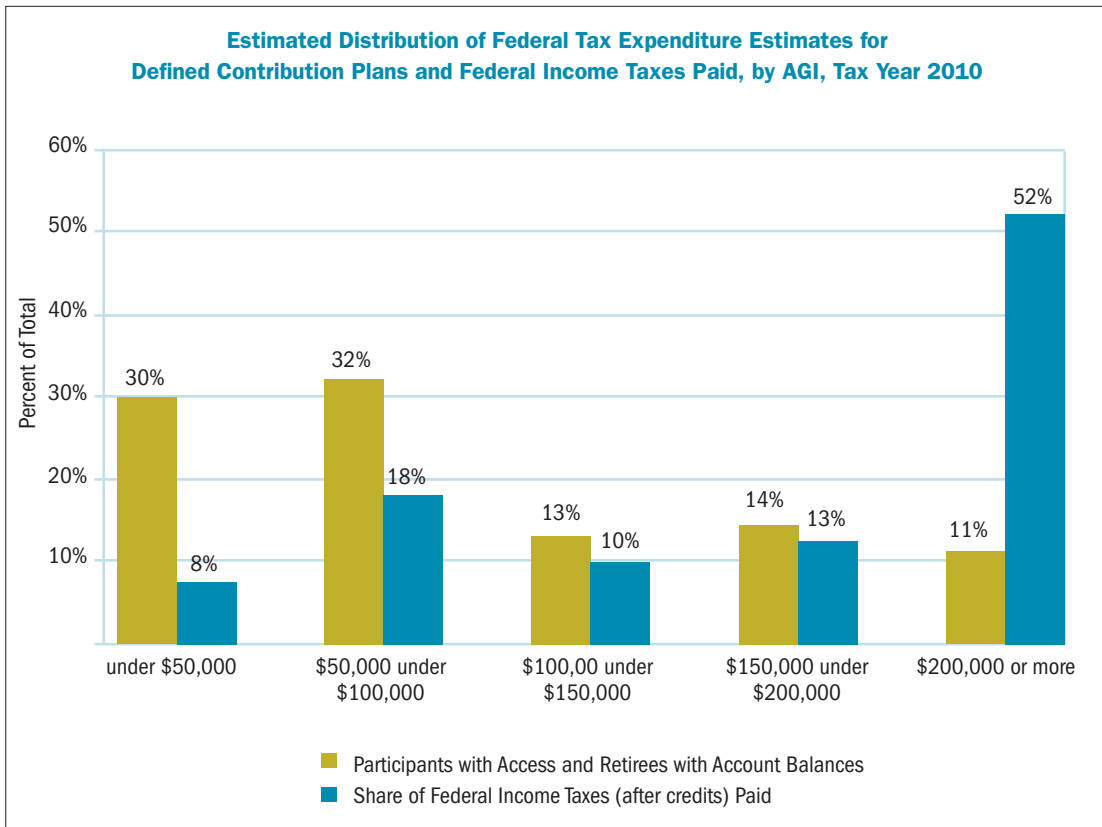
That gap in rates of saving cannot be ignored. It derives from a culture of saving that employers promote, with your help, by offering retirement benefits and matching contributions. It reflects the convenience of saving through payroll deductions. When workers are without that culture

and convenience and must decide on their own to set up and contribute to an IRA, less than 5 percent choose to save. Traditional IRAs are not a highly effective incentive for workers without workplace retirement plans to save for retirement.

Another criticism of 401(k) plans is that they benefit only the rich. A *Time* magazine article several months back ran a cover with a headline, "It's Time to Retire the 401(k)." That article fostered the erroneous view that the only people benefiting from 401(k) plans are wealthy folks. However, if you look at income statistics on 401(k) plan participants, about 74 percent of participants are in households with annual gross incomes of less than \$100,000.

### Who Benefits?

If you look at the distribution of tax expenditures for 401(k) plans, 62 percent of deferred taxes benefit households with annual gross incomes of less than \$100,000. Income statistics also show that 75 percent of the deferred taxes benefit households with annual gross income of less than \$150,000



(Chart 2, Estimated Distribution of Federal Tax Expenditure Estimates for Defined Contribution Plans and Federal Income Taxes Paid, by Adjusted Gross Income, Tax Year 2010).

The data belie the argument that the majority of tax expenditures for employer-sponsored retirement savings benefit the wealthy. Nonetheless, we need to remember that 47 percent of households pay no federal income taxes and therefore receive no benefit from those tax incentives. That is why households with annual income of less than \$50,000 pay only 8 percent of individual income taxes. Households with annual income of less than \$100,000 pay about 26 percent of individual income taxes. The fact that about 62 percent of the tax expenditures for defined contribution plans go to those families shows that the current tax preference actually shifts the benefit toward middle- and lower-income workers.

### Get Involved

We know that employer workplace plans work. As Congress begins the debate on tax reform, the ASPPA Government Affairs Committee will be working hard to deliver our message. If tax reform is constructed in a manner like 1986, it will be disastrous. Now is not the time to be reducing retirement savings incentives that will ultimately reduce coverage. By contrast, we need to consider steps to expand retirement plan coverage—the only way working Americans have ever meaningfully saved.

But, we are going to need your help. It is going to take a concerted effort to prevent what happened in 1986 from happening again. Becoming politically active needs to be part of your business plan, because guess what, your business—the retirement plan business—will depend on it. So, go meet your local member of Congress at a town hall meeting and tell him or her how important retirement plans are. If you are coming to the ASPPA Annual Conference this year, make sure you sign up for the Visits to the Hill. Make a contribution to the ASPPA Political Action Committee (ASPPA PAC), for whatever amount. It will all make a difference. [↗](#)



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