

For Immediate Release  
May 17, 2005

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## **PRESS RELEASE**

# Tax Reform May Prove Hazardous To Retirement Savings, New Report Warns

A new analysis of possible tax reforms concludes that some could inadvertently discourage retirement savings, particularly among workers with modest earnings who already have difficulty putting aside adequate funds to support their senior years.

The report, titled “Savings Under Tax Reform: What Is The Cost to Retirement Savings?” was done by researchers at Optimal Benefit Strategies on behalf of the American Society of Pension Professionals & Actuaries (ASPPA) Pension Education and Research Foundation. The study is posted on ASPPA’s Web site at [www.asppa.org](http://www.asppa.org).

“This research quantifies and confirms our fears about casually tinkering with savings incentives,” said ASPPA Executive Director Brian Graff, “and explains how efforts aimed at increasing savings could have the opposite outcome. It is a warning.”

The report examines in detail proposals that would change today’s current income tax to a consumption tax or would reduce or eliminate tax on capital gains and dividends. Many tax reform advocates favor proposals such as these. Such a move could increase total savings, the researchers concluded, but would also likely lead to abandonment of existing employer-sponsored retirement plans, leaving American workers without meaningful ways to save for retirement.

Other studies have concluded that saving for retirement is not a responsibility workers shoulder willingly or well. Problems are particularly acute among workers of modest means who have limited discretionary income, proving that the existing tax incentives available to employer-sponsored retirement plans is the most efficient and effective way for workers to save. According to the Employee Benefit Research Institute, low- to moderate-income workers are 11 times more likely to save when covered by a workplace retirement plan. When deprived of the discipline and structure of a workplace plan, the vast majority of American workers simply do not save.

The outcome for American workers to achieve retirement security would be particularly disrupted if anticipated Social Security benefits are eventually trimmed as a result of proposals now under discussion, along with any tax reform that favors short-term individual savings over long-term retirement savings.

“Without careful consideration, both major reform and targeted preferential treatment of nonqualified investments could erode both sponsorship and participation in qualified retirement plans,” the analysis concludes, adding “Such tax policy could add further instability to an already unstable component of retirement security—qualified retirement plan savings—and place further pressure on personal savings and the Social Security system.”

The report was written by Judy Xanthopoulos and Mary Schmitt, both of whom formerly worked for the Congressional Joint Committee on Taxation analyzing tax proposals.

The authors conclude that reducing or eliminating the tax on capital gains and dividends would be attractive to higher-income workers, but could in fact end up harming lower-income workers who may be left to cope for themselves if their employers use the change as reason to abandon existing workplace retirement plans.

ASPPA and other advocates for the employer-sponsored pension retirement plan system point out that today's retirement policy allows business owners to maximize personal retirement savings only if a majority of their workforce is included in a plan and provided meaningful benefits. In other words, making equally valuable short-term savings incentives available to anyone for any purpose will inevitably undermine targeted long-term retirement savings incentives. If individual savings options became equally attractive, they warn, those earning modest incomes could be left to fend for themselves, almost certainly resulting in a reduced retirement savings rate for this class of workers.

ASPPA believes that any tax reforms must retain adequate incentives in order for employers to maintain employer-sponsored retirement plans and that they should receive the same protection President Bush has requested for current home mortgage and charitable giving.

ASPPA, a national organization made up of more than 5,500 retirement plan professionals, is dedicated to preserving and enhancing the private retirement plan system in the United States. ASPPA is the only organization comprised exclusively of pension professionals that actively advocates legislative and regulatory changes to expand and improve the private retirement plan system.

ASPPA's Pension Education and Research Foundation (PERF) fosters excellence in pension education and promotes scholarly research on retirement policy. Endowments are provided by PERF to educational institutions for scholarship grants to qualifying students. PERF also sponsors the development of pension educational credentialing programs and support materials.