

For Immediate Release

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Proposed Tax Reforms Could Discourage Savings, Deter Retirement Plans, Expert Tells Finance Committee

June 30, 2005- (Arlington, Va.) – Popular tax reform proposals that would reduce or eliminate the tax on capital gains and dividend payments could create a bleak retirement savings environment for many of today's workers, the Executive Director/CEO of the American Society of Pension Professionals & Actuaries (ASPPA) warned a Senate Finance Committee panel today.

Testifying at the Subcommittee on Taxation and IRS Oversight hearing on savings and investment, ASPPA's Brian Graff cited a report concluding that the proposed tax changes could actually reduce retirement savings by discouraging many employers from offering such plans. An ample body of evidence, Graff noted, suggests that most workers would not save in the absence of such plans.

Graff told the panel that some popular tax reform proposals — such as those to reduce or eliminate taxation of capital gains and dividends — could have an unexpected and negative impact on the retirement security of millions of Americans.

He referenced a report sponsored by the ASPPA Pension Education and Research Foundation authored by two former analysts of the Joint Committee on Taxation and titled, "Savings Under Tax Reform: What Is the Cost to Retirement Savings?" The report is posted to www.asppa.org.

The report concludes that such tax changes would achieve their goal of increasing savings by high-income individuals, but would simultaneously result in the elimination of many employer-sponsored plans as employers — particularly small business owners — would be able to accomplish their savings objectives outside of a qualified retirement plan. This would lead to lower savings among low- to moderate-income workers, many of whom already face the threat of savings shortfalls in retirement.

Studies have concluded that employer-sponsored retirement plans have been the only effective means to get low- to moderate- workers to save. According to the Employee Benefit Research Institute, low- to moderate-income workers are *20 times* more likely to save when covered by a workplace retirement plan. Of workers who earned \$30,000 to \$50,000 and were covered by an employer-sponsored 401(k)-type plan, 77.7 percent actually saved in the plan, while only 4 percent of workers at the same level of income, but not covered by a

401(k)-type plans, saved in an IRA. When deprived of the discipline and structure of a workplace plan, the vast majority of American workers simply do not save.

Graff also explained why any permanent reduction or elimination of the current reduced rates for capital gains and dividends would do very little to promote savings by low-to moderate-income individuals. According IRS data, only 4 percent of the US population filed tax returns that reported capital gains in 2002.

Instead, ASPPA supports the extension and expansion of the current law Saver's Credit, which would benefit tens of millions of American households. Additionally, steps must be taken to expand workplace retirement coverage as opposed to proposals to improve the tax incentives for nonqualified investments as they would likely lead to reduced workplace retirement coverage.

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