

For Immediate Release
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Tax Reform Proposals Threaten Workers' Retirement Security “Don't Take Away America's 401(k)”

November 1, 2005 (Arlington, VA) – Recommendations issued today by the President's Advisory Panel on Federal Tax Reform (Advisory Panel) would be devastating to the retirement security of millions of American workers, according to Brian Graff, Executive Director/CEO of the American Society of Pension Professionals & Actuaries (ASPPA).

In addition to the many recommendations to reform the federal tax code, the Advisory Panel set forth several savings proposals. One of the proposals would eliminate all employer-sponsored defined contribution plans [e.g., 401(k), 403(b), 457, SIMPLE plans, etc.] and replace them with one type of account (called the “Save at Work” account). A significant and controversial aspect of this new proposal would be the elimination of the tax deduction for contributions. Instead, contributions to the account would be made on an after-tax basis, although distributions would be tax-free.

“Without the upfront tax deduction, we believe many workers currently saving in their 401(k) will choose not to save,” Graff stated. In its report, the Advisory Panel admitted that it was able to finance lower tax rates on taxpayers with the highest incomes by eliminating the pre-tax deduction for retirement plan contributions. “ASPPA believes that it is totally unacceptable to lower tax rates for higher income individuals by sacrificing the savings tax incentives for American workers.”

The Advisory Panel would also propose eliminating IRAs and other savings vehicles (e.g., education IRAs, section 529 plans) and replacing them with “Save for Retirement” and “Save for Family” accounts that would allow for annual contributions up to \$10,000 each. Combined, these accounts would allow a couple owning a small business to save \$40,000 for retirement on a tax preferred basis (compared to \$10,000 under current law). “Many small business owners will forego adopting a workplace retirement plan if they can save that much on their own on a tax preferred basis,” Graff said.

Further, the proposal would eliminate the tax incentives for annuities. Annuities are an important tool for enabling individuals without a plan to effectively manage their retirement funds. “It is frankly irresponsible to suggest eliminating this critical means of ensuring that retirees will have enough money to live on,” Graff remarked.

Of equal concern to ASPPA, the Advisory Panel recommends that 100 percent of the dividends paid by U.S. corporations and 75 percent of investments, including mutual funds in U.S. corporations, be exempt from tax. This essentially means that investments made outside of a qualified plan could have an effective tax rate of less than 4 percent. Further, unlike retirement plan savings, these investments will not be subject to the distribution restrictions that help ensure that the funds are available for retirement. “If investments outside of a qualified plan are taxed at an effective rate of less than 4 percent, for many small business owners it will no longer make financial sense for them to adopt a retirement plan for themselves and their workers,” Graff continued.

For most small businesses, there is a substantial cost to providing a retirement plan, due to administrative requirements and federally mandated nondiscrimination rules. These costs can often be 25 to 30 percent on top of the amounts small business owners want to save for themselves. Under tax reform, if small business owners are able to accomplish their retirement savings objectives with more favorable tax rules on non-plan investments, they will be unlikely to incur the higher cost and potential liability associated with establishing or maintaining an employer-sponsored retirement plan for their workers.

Studies have concluded that saving for retirement is not a responsibility workers shoulder willingly or well. The existing tax incentives available through employer-sponsored retirement plans have been the most efficient and effective way for workers to save. According to the Investment Company Institute, almost 50 percent of American households owning mutual funds held those funds through employer-sponsored retirement plans. However, when deprived of the discipline and structure of a workplace plan, the vast majority of American workers simply do not save. According to the Employee Benefit Research Institute, low- to moderate-income workers are 20 times more likely to save when they participate in a workplace retirement plan.

“If the Advisory Panel’s recommendations become law, most employers, particularly small businesses, would no longer have an incentive to offer a retirement plan to their employees,” Graff said. “Without the incentive of an employer-sponsored retirement plan, employees at these businesses will be significantly less likely to save, if they save at all.”

As Congress evaluates the Advisory Panel’s savings proposals, ASPPA asks that any reform to the federal tax system accommodate sound retirement policy. Sound retirement policy suggests that the most efficient and effective tax system must continue to provide sufficient incentives to employers to establish and maintain plans for their workers. The 401(k) has been a great success story introducing tens of millions of Americans to the benefit of saving. It is critical that we “don’t take away America’s 401(k).”

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

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