ASPPA®
WORKING FOR AMERICA'S RETIREMENT

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401(k) *is*

Main Street's Savings Plan

Over sixty million American workers now participate in employer-based defined contribution retirement plans. In the 30 years since 401(k) plans gained acceptance, 401(k) plans have become the most popular defined contribution savings arrangement. Over $4 trillion has been accumulated in 401(k) and similar retirement savings plans. Trillions more has been accumulated through these workplace savings arrangements, then rolled over to IRAs.

401(k) plans are primarily a middle class benefit

The overwhelming majority of participants in 401(k) and similar plans are far from wealthy. In fact, almost 80% of participants in 401(k) and profit sharing plans make less than $100,000 per year. Forty-three percent make less than $50,000. (See chart 1)

Workers earning $30,000 to $50,000 are *14 times* more likely to save at work

The *primary factor* in determining whether or not a worker is saving for retirement is whether or not they have a retirement plan at work. Data prepared by the Employee Benefit Research Institute (EBRI) shows that over 70% of workers earning from $30,000 to $50,000 participated in employer-sponsored plans when a plan was available, whereas less than 5% of those without an employer plan contributed to an IRA. (See chart 2)

401(k) plans are Main Street's path to building financial security

Given how successful 401(k) plans are at encouraging workers over all income levels to save, it should be no surprise that 401(k) and similar plans have become the primary vehicle for building financial security for American families.

- The Investment Company Institute (ICI) found that among households that made their first mutual fund purchase in 2005 or later, *74%* bought their first fund through an employer-sponsored retirement plan.
- An Employee Benefit Research Institute (EBRI) analysis of the 2010 Survey of Consumer Finances shows that for families with a retirement savings account, the median percentage of the families' total financial assets held in these accounts is 65.7%, up from 59.6 % in 2004. (See chart 3)
- Before 401(k) plans became popular in the 1990's, combined defined contribution and IRA assets were less than $2 trillion. By the end of 2011, combined assets had grown to $9.4 trillion. (See chart 4)

The tax incentive that powers 401(k) plans is a *deferral – not* a permanent exclusion

Unlike deductions for mortgage interest or charitable contributions, which are permanent deductions, tax incentives for retirement savings are a deferral. Income deferred today will be taxable income in retirement. A recent study shows failure to reflect this deferred tax revenue overstates the tax expenditure estimate by more than 50%.

Main Street's Savings Plan

401(k) and similar plans have been remarkably successful in getting workers at all income levels to save for retirement. Proposals to raise money in the budget window by reducing savings incentives are short-sighted, producing only *short term* deficit reduction and causing serious long-term damage to the retirement security of tens of millions of working Americans.

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