Statement of Judy A. Miller
on behalf of the
American Society of Pension Professionals and Actuaries

Senate Finance Committee Hearing
Tax Reform Options: Promoting Retirement Security
September 15, 2011

Thank you Chairman Baucus, Ranking Member Hatch and members of the Committee for the opportunity to speak with you today. I am Judy Miller, Chief of Actuarial Issues and Director of Retirement Policy for the American Society of Pension Professionals and Actuaries (ASPPA).

We thank this Committee for its leadership in passing the Pension Protection Act of 2006 (PPA). PPA had overwhelming bipartisan support from this Committee and the entire Congress. By permanently extending changes to various retirement plan rules, PPA provided needed certainty for workplace retirement plans.

Proposals currently under discussion – slashing the contribution limits, or turning the current year's exclusion into a credit - would discourage small business owners from setting up or maintaining a workplace retirement plan. This is the exact opposite of what needs to be done.

Data clearly shows 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. When evaluating any current retirement policy proposal the critical question this Committee must ask is: "Will it improve access to workplace retirement savings?"

Many of these flawed proposals are based on some persistent myths.

<u>Myth #1</u>: Less than half of workers have access to retirement savings at work.

This myth is dangerous because it gives the impression current incentives have failed when the facts show otherwise. Bureau of Labor Statistics data shows 78 percent of all full time workers have access to a workplace retirement plan, with 84 percent of those workers participating. Looking only at private sector workers, 73 percent have access to a plan with 80 percent participating. That is a far cry from the "less than half" commonly cited.

<u>Myth #2:</u> The current tax incentive is 'upside down'.

This myth arises from a failure to recognize that the incentives for workplace retirement plans are different from just about any other tax incentive in the Code. Nondiscrimination rules make sure that retirement plan incentives *don't* discriminate in favor of the highly paid, and limit pay that can be counted toward benefits.

The result is the current tax incentive for employer-sponsored defined contribution plans is MORE PROGRESSIVE than the current income tax system. Based on an analysis by a former JCT economist, taxpayers making less than $50,000 pay only 8% of income taxes, but receive 30% of the tax incentives for defined contribution plans. Households making less than $100,000 pay 26% of income taxes, but get over 60% of the benefit of this tax incentive. By contrast, households making more than $200,000 pay 52 percent of all income taxes, but receive only 11 percent of retirement plan tax incentives.

Sixty percent of a tax incentive going to workers that pay *less than 30%* of income taxes is not up-side down. It is very much right-side up.

<u>Myth #3:</u> Small businesses will sponsor retirement plans without an appropriate tax incentive.

I spent over 20 years talking to small business owners in Montana about why they should set up, or keep on operating, a retirement plan. With rare exceptions, the current year's tax savings was a critical factor – often the only factor – supporting the decision to put in a plan. It's not that small business owners are selfish, or don't want to help their employees save for retirement. In real life, most small business owners aren't sitting on lots of cash. They use the savings generated from the retirement plan tax incentives to help pay for contributions required by the nondiscrimination rules. Reducing the incentive literally reduces the cash the small business owner has to work with. There is not a doubt in my mind that reduced incentives will mean fewer plans, or lower employer contributions for those plans remaining.

<u>Myth #4</u>: It doesn't matter if a new tax structure causes employers to terminate plans, because "Re-engineering the tax incentive will lead more workers to save on their own".

Truth is, the only way we have ever gotten working Americans to save for retirement is through employer-sponsored retirement plans. Over 70% of workers making $30,000 to $50,000 contribute when covered by a plan at work. By comparison, less than 5 percent of workers at the same income levels save on their own in an IRA when there is no workplace plan.

That is a startling difference in savings rates. Changing the exclusion to a credit will never make up this difference. Increasing plan coverage is a much simpler task with more certain results.

<u>Myth#5:</u> Tax incentives for retirement savings are lost revenue

Unlike deductions for mortgage interest or charitable contributions, which are permanent deductions, the incentives for retirement savings are just a *deferral*. Contributions (and earnings) are taxed at ordinary

income rates when distributed from the plan. The truth is, the revenue you think you gained in the budget window from cutting retirement savings is an illusion. Reduced contributions today mean lower revenue outside the budget window, when there will be less retirement savings to be withdrawn and taxed.

In summary, given existing pressures on Social Security, this is not the time for a massive experiment with workers' 401(k) plans. We need a tune-up not an overhaul. The key to promoting retirement security is expanded workplace savings, and reduced incentives for small business owners to sponsor retirement plans would be a big step in the wrong direction.

I would be pleased to discuss these issues further with the Committee or answer any questions you may have.