

## PRESERVE THE EMPLOYER-PROVIDED RETIREMENT SYSTEM

July 2013

The undersigned organizations are committed to preserving and enhancing the voluntary employer-provided retirement system and the tax incentives that support it. These plans are helping millions of American families achieve a secure retirement. **We urge the Committee on Finance to preserve the current tax treatment that both encourages employers to offer and workers to contribute to retirement plans.**

- **Employer-provided plans are a key component of our nation's retirement system.** Together with Social Security and individual savings, employer-provided retirement plans produce significant retirement benefits for America's working families. There are nearly 655,000 private-sector defined contribution plans covering more than 73 million active participants and nearly 47,000 private-sector defined benefit plans covering more than 17 million active participants. Additionally, nearly 17 million employees of state and local governments have access to an employer-sponsored defined benefit plan, defined contribution plan, and in most cases, both. Recently enacted enhancements to the defined contribution system including automatic enrollment and automatic escalation are expanding participation and improving retirement preparedness. According to the U.S. Department of Labor's Bureau of Labor Statistics (March 2012), nearly 80% of full time workers have access to a retirement plan and more than 80% of these workers participate in those plans. When one includes all part-time and seasonal workers and all income groups, 68% have access to an employer-sponsored retirement plan and 79% participate."
- **Changing the tax treatment and/or lowering contribution levels will result in lower retirement savings and fewer workers being offered retirement plans by their employers.** Since today's retirement laws and policies are working well and are helping many millions of families (supported by their employers) accumulate savings and generate retirement income, the first, and most important, principle we urge Congress to consider in the context of tax reform is to *do no harm*. Recent proposals to reduce the incentives for retirement savings would reduce the number of employers who will voluntarily choose to sponsor a plan, reducing retirement savings and leaving retirees more reliant on Social Security and other government programs. In other words they do the opposite of what we believe should be the first principle - they "Do Harm."
- Tax deferral is key to the success of the U.S. employer-sponsored retirement system. It provides the incentive for firms to voluntarily offer retirement benefits to their workers. Because employers compete with one another to hire workers, they create compensation packages that will help them attract and retain qualified workers. Employees who are focused on saving for retirement value compensation packages that include retirement benefits more highly than compensation packages of equal cost but which consist entirely of cash compensation. Because employees value these benefits, U.S. private-sector employers voluntarily sponsor plans that provide significant benefits to American workers.
- The current tax code already limits the ability of workers to defer compensation. In addition, each plan is subject to broad coverage requirements and nondiscrimination rules, which limit the amount of retirement benefits that a firm's high-paid workers can receive based on the benefits received by the firm's low-paid workers. Further restrictions on tax deferral would undoubtedly reduce the number of employers that voluntarily sponsor a retirement plan.
  - Proposals capping deductions and exclusions and limiting lifetime savings are complicated, can produce inequities and would severely reduce the incentive to maintain a plan or to dedicate company funds to employer contributions.

- A March 2012 study by the Employee Benefit Research Institute (EBRI) found that the one such proposal – to replace the current tax incentives with a tax credit – would reduce retirement security for workers at all income levels, not just high-income workers. Specifically, the study revealed that some employers would decide to no longer offer a plan to their workers and some participants would decrease their contributions. The combined effect of these changes would result in reduced savings balances at retirement between 6 and 22 percent for workers currently age 26-35, with the greatest reductions for those in the lowest income quartile. Lowest-income participants in retirement plans with less than \$10 million in total plan assets would see reductions as high as 40 percent.
  - Another analysis by EBRI reveals that the illustrative option by the National Commission on Fiscal Responsibility to limit contributions to defined contribution retirement plans to the lesser of \$20,000 or 20 percent of compensation will reduce retirement security for workers at all income levels, not just high-income workers. According to the study, those in the lowest-income quartile will have the second highest average percentage reductions. Small business owners may be less likely to offer a plan to their employees if contribution limits are lowered. Proposals to reform retirement savings incentives must focus on crafting policy that will result in better long-term retirement outcomes for Americans, rather than on short-term deficit reduction.
- **Employer-provided retirement plans offer key advantages to workers.** Employers voluntarily establish these plans and add immeasurable value by acting as fiduciary and investment management overseers, monitoring plan fees, selecting quality investment alternatives, making significant contributions, providing financial education, and encouraging and facilitating savings through payroll deductions. These plans must be operated for the exclusive benefit of and “solely in the interest of” the participants. They must meet broad coverage and nondiscrimination tests that ensure that the eligibility and operation of the plan are fair. Employee Stock Ownership Plans, or ESOPs, provide a unique opportunity for employees to share in their companies’ success.
  - **The current legislative structure of retirement tax incentives reflects the complexity and variability of the U.S. workforce.** Tremendous diversity exists within the U.S. workforce: there are widely varying degrees of stability, longevity, income, benefits, etc. which are inherent to an economy this vast and dynamic. The variation in retirement tax incentives provided under the law reflects that diversity, providing the means for different employers with different types of work populations to adapt their benefit structure to fit the unique needs of their employees. We believe that retaining this flexibility is vital to not only addressing the needs of our workers, but to ensuring that our wide variety of industries and employers can remain globally competitive.
  - **Retirement plans play an important role in the capital markets.** As of March 31, 2013, tax qualified retirement plans held \$20.8 trillion in assets, of which approximately \$16 trillion is attributable to employer-provided plans. This pool of capital helps to finance productivity enhancing investments and business expansion. Contributions by employees and employers to defined contribution plans continued even through the recent years of financial stress. Changes to the tax treatment of retirement plans that would reduce contributions or discourage the establishment and maintenance of plans could negatively impact the role of these pivotal players in the capital markets.
  - **Taxes on retirement savings are deferred, not excluded. Deferral treatment is not equivalent to the exclusion associated with other tax expenditures.** As individuals begin to retire, distributions from retirement savings are taxed and revenue will flow to the U.S. Treasury.

## **Conclusion**

The employer-sponsored retirement plan system has introduced tens of millions of American workers to retirement saving. Employers voluntarily establish and promote these plans to help their workers build assets for a secure retirement. Eliminating or diminishing the current tax treatment of employer-provided retirement plans will jeopardize the retirement security of tens of millions of American workers, impact the role of retirement assets in the capital markets, and create challenges in maintaining the quality of life for future generations of retirees. While we work to enhance the current system and reduce the deficit, we must not eliminate one of the central foundations – the tax treatment of retirement savings – upon which today’s successful system is built. The effects of such a change for individuals, employers and the system as a whole are simply too harmful and must be avoided.

AMERICAN BANKERS ASSOCIATION  
AMERICAN BENEFITS COUNCIL  
AMERICAN COUNCIL OF LIFE INSURERS  
AMERICAN SOCIETY OF PENSION PROFESSIONALS & ACTUARIES  
THE COMMITTEE ON INVESTMENT OF EMPLOYEE BENEFIT ASSETS (CIEBA)  
THE ERISA INDUSTRY COMMITTEE  
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