April 15, 2015

Dear Members of the Senate Finance Committee Working Group on Savings & Investment,

The undersigned representatives of plan sponsors, service providers, and employers appreciate this opportunity to comment on the potential impact of tax reform on the private U.S. retirement system and the retirement security of millions of Americans.

Employer-sponsored retirement plans and individual savings arrangements have introduced tens of millions of American workers to retirement saving. Today, about 80 million households[1] have a combined $24.7 trillion earmarked for retirement within defined benefit plans, defined contribution plans, Individual Retirement Accounts (IRAs), and annuities.[2] Eliminating or diminishing the current tax treatment of employer-provided retirement plans and individual savings arrangements would 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.

The tax treatment of qualified plans provides significant benefits to employers and employees by encouraging retirement saving. Employers obtain a tax deduction for plan contributions and employees largely save on a pretax basis. Upon retirement, retirees pay ordinary tax rates on the distribution from the plans. Employees do a better job saving for retirement when an employer plan is available. Payroll deduction facilitates the savings habit, and employer matching contributions as well as the Savers' Credit provide further incentives. A large majority of households with defined contribution plans say that the tax treatment of their retirement plans at work are a big reason to contribute and about nine out of 10 U.S. households think that the tax incentives for retirement saving should not be eliminated or reduced.[3] Moreover, a recent survey finds that the single best predictor of retirement readiness is participation in a work-based savings plan.[4]

There have been a number of proposals put forth as alternatives to the current tax treatment for retirement plans. However, there is substantial evidence that changing the tax

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[1] *See* Figure 1 in Sarah Holden and Daniel Schrass, "The Role of IRAs in U.S. Households' Saving for Retirement, 2014," *ICI Research Perspective* 21, no. 1 (January 2015); available at www.ici.org/pdf/per21-01.pdf.

[2] *See* Investment Company Institute, *Retirement Assets Total $24.7 Trillion in Fourth Quarter 2014* (March 25, 2015), available at www.ici.org/research/stats/retirement/ret_14_q4. These figures also include assets held in government-sponsored plans.

[3] *See* Figures 2 and 3 in Daniel Schrass, Sarah Holden, and Michael Bogdan, "American Views on Defined Contribution Plan Saving," *ICI Research Report*, Washington, DC: Investment Company Institute (January 2015); available at www.ici.org/pdf/ppr_15_dc_plan_saving.pdf.

[4] *See* Investment News, *A Survey of Retirement Readiness* (October 2, 2011); available at www.investmentnews.com/apps/pbcs.dll/article?AID=/20111002/REG/310029977. *See also*, Jack VanDerhei, "What Causes EBRI Retirement Readiness Ratings TM to Vary: Results from the 2014 Retirement Security Projection Model,®" *EBRI Issue Brief*, no. 396 (February 2014); available at www.ebri.org/pdf/briefspdf/EBRI_IB_396_Feb14.RRRs2.pdf. This research finds that one of the most important factors in determining whether Gen Xers would have sufficient retirement income is eligibility for participation in an employer-sponsored defined contribution plan.

treatment and/or lowering contribution levels will result in lower retirement savings and fewer workers being offered retirement plans by their employers. Studies by EBRI show that changing the tax deferral to a <u>government matching contribution (while simultaneously making the employer contributions immediately taxable to the employee)</u> or capping the contribution limits will reduce retirement savings at all income levels.[5] Moreover, small business owners may be less likely to offer a plan to their employees if contribution limits are lowered. Consequently, proposals to change the retirement savings system should focus on enhancing the current system, and not sacrificing it to pay for tax reform.

Plan sponsors, service providers, and employers remain committed to providing workers with retirement benefits that will help them prepare for a secure retirement. We are committed to working with the Committee and all of Congress to ensure that the current voluntary and flexible employer-provided and individual retirement plan system continues to flourish and benefit American workers.

Sincerely,

American Bankers Association
American Benefits Council
American Council of Life Insurers
American Retirement Association
Association for Advanced Life Underwriting
College and University Professional Association for Human Resources – CUPA-HR
The Committee on Investment of Employee Benefit Assets
ESOP Association
Financial Executives International Committee on Benefits Finance
Financial Services Institute, Inc.
Financial Services Roundtable
Insured Retirement Institute
Investment Adviser Association
Investment Company Institute
National Association of Insurance and Financial Advisors
NTCA–The Rural Broadband Association
Retirement Industry Trust Association (RITA)
Small Business Council of America
Small Business Legislative Council
Society for Human Resource Management
The ERISA Industry Committee
The Securities Industry and Financial Markets Association (SIFMA)
The SPARK Institute
U.S. Chamber of Commerce

[5] *See* Testimony of Dr. Jack VanDerhei, Research Director, Employee Benefit Research Institute before the House Committee on Ways and Means Hearing, "Tax Reform and Tax-Favored Retirement Accounts" (April 17, 2012); available at www.ebri.org/pdf/publications/testimony/T-172.pdf.