Helping Workers and Families to Save for Retirement

Statement for the Record

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"Regulatory Barriers Facing Workers and Families Saving for Retirement"

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I am Pamela Villarreal, a senior fellow at the National Center for Policy Analysis. For several years, I have explored and written about the importance of individuals and families saving for retirement as a supplement to Social Security benefits. Policymakers, retirement researchers and financial experts have conducted numerous studies only to find that most adults soon to be approaching retirement are not ready for retirement, and a majority will depend on Social Security for most of their income.

According to the Employee Benefit Research Institute (EBRI):[1]

- 6 in 10 workers have, at some point in time, saved for retirement and 56 percent of workers are currently saving for retirement.
- Workers who participate in a formal retirement plan are more likely to save than those who do not.
- 73 percent of workers report having been offered a retirement plan by their employer, and of those who have access to one, 80 percent are participating.
- 46 percent of workers are saving into an IRA plan.

Furthermore, 60 percent feel *somewhat* or *very* confident that they will have enough money for a comfortable retirement, however, this confidence level has declined from a year ago.

While one could argue that the participation rate could be much higher, it does not necessarily mean that access is the problem. Between 401(k) plans, SEP plans, traditional and Roth IRA plans and the new MyRA accounts, anybody who earns at least the amount in wages that they plan on contributing to a retirement account can start and contribute to some type of retirement savings vehicle. But merely increasing access to retirement accounts does not mean that households will contribute to them. A variety of rules and regulations pertaining to retirement savings could impede the ability of workers to save.

Unequal treatment of IRAs and Employer-sponsored plans under the tax code. IRAs are not given same and equal treatment as employer-sponsored plans. For example, workers who do not have access to 401(k) or 403(b) type plans from their employers are limited to annual IRA contributions ($5,500 in 2017) that are less than half of the contribution limits of an employer-provided plan ($18,000 in 2017). When adding in "catch up" contributions for workers age 50 and over, employer-sponsored 401(k) ad 403(b) plans allow $24,000 in annual contributions in 2017, compared to just $12,000 in annual contributions for traditional or Roth IRA accounts.

Furthermore, the income phase outs for Roth IRA contributions not only magnify the unequal treatment of Roth IRAs to 401(k)-type plans, but also discriminate against married couples. In 2017, single individuals with a modified adjusted gross income (MAGI) of up to

[1] "The 2017 Retirement Confidence Survey: Many Workers Lack Retirement Confidence and Feel Stressed About Retirement Preparations," Employee Benefit Research Institute, No. 431, March 21, 2017.

$118,000 can contribute the full $5,500 into a Roth IRA. Thus, an unmarried couple living together can earn up to $236,000 in MAGI before their contributions phase out. For a married couple, however, the MAGI limit is $186,000 before contributions phase out. This is essentially a marriage penalty. However, these limits do not apply to traditional tax-deferred IRA savings. There is simply no rationale as to why limits savers and retirement plans should be segregated based on employment and marital status.

Fewer options for lower-income savers. In 2014, the Obama administration implemented MyRA accounts to provide more access to retirement savings accounts. Unfortunately, the MyRA, which is designed to be an attractive vehicle for young and lower-income savers, relegates them to a Treasury bond fund similar to the Federal Thrift Savings Plan's "G" fund, which is not the ideal choice for a worker with 30 to 40 more years before retirement. Since 1987, the average annual rate of return of the G fund has ranged from 1.89 percent to 5.54 percent, depending on the length of time the bonds are held. Arguably, there are better options for savers than the MyRA. In essence, the MyRA lacks product neutrality and is even harmful to some savers.

In addition, the Department of Labor's expansion of the Fiduciary Rule (which has been put on hold by President Trump) is in principle, designed to protect savers from financial advisors who are not acting in their clients' best interests, but it will impose additional costs on small investment firms and smaller balance retirement accounts. Low-income savers will be dissuaded from commission-based investments into flat fee investments, which they may not be able to afford. A 2011 survey by Oliver Wyman for the Department of Labor found that the overwhelming majority of savers of all asset levels prefer commission-based to fee-based accounts.[2]

The outdated required minimum distribution. The so-called "required minimum distribution" requires retirees to begin withdrawing a specified percentage from their tax-deferred retirement accounts at age 70 ½. This rule is outdated and simply does not reflect the increasing costs that seniors face with health care expenses as they get older. While the IRS wants to unlock tax revenue from traditional IRA and 401(k) accounts, it is likely that will eventually occur as seniors turn to their accounts for long-term care and health expenses, which tend to be the greatest during the last two years of life. As the number of seniors living to age 100 increases exponentially each Census, the requirement that they begin drawing down retirement accounts decades before the end of their lives could upend their retirement security and increase their tax burden, particularly if they have no need to spend the money but are uncertain as to how to reinvest it.

Thank you for the opportunity to submit these written comments.

[2] "Oliver Wyman report: Assessment of the impact of the Department of Labor’s proposed “fiduciary” definition rule on IRA consumers," Oliver Wyman, April 12, 2011.