How America Saves
THE COALITION TO PROTECT RETIREMENT

Friday, April 4, 2014

The Honorable David Camp
Chairman, Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Camp:

The Coalition to Protect Retirement commends you for your hard work to simplify the tax code. Your discussion draft presents a blueprint for a simpler and fairer tax code that seeks to increase economic growth. We appreciate your leadership on tax reform and the time and effort you and your Ways and Means Committee colleagues have spent developing this proposal. It is the foundation for a long, and hopefully productive, debate. While the spirit of the discussion draft serves as a catalyst for constructive discussion, there are several provisions that are of concern and could negatively impact retirement savings opportunities for working Americans.

The Coalition to Protect Retirement believes that Congress should encourage retirement savings for American workers through the preservation of current tax incentives. The Coalition is composed of the following associations: American Benefits Council, American Council of Life Insurers, American Society of Pension Professionals and Actuaries, The ERISA Industry Committee, ESOP Association, Insured Retirement Institute, Investment Company Institute, Plan Sponsor Council of America, Securities Industry and Financial Markets Association, and the Society for Human Resource Management.

As an initial matter, we believe that it is important to distinguish a tax deferral from a tax exclusion or deduction. Unlike a tax exclusion or deduction, tax deferral in retirement plans increases taxes paid when the taxpayer receives distributions from the plan. Not appreciating this distinction can lead to unintended policy choices.

For example, the draft would freeze for a decade the inflation adjustments for the limits on annual contributions to retirement plans and individual retirement accounts, which would have a significant and negative cumulative impact on individuals' ability to save for their retirement. Under this proposal, the defined contribution plan elective deferral limit is projected to be $4,500 lower by 2024 than it would be under current law, a reduction of more than 20 percent. Also, eliminating inflation adjustments for contribution limits for ten years provides an additional disincentive for business owners, particularly small businesses, to continue or offer a plan. The ten-year freeze on indexation of plan limits will also substantially increase the percentage of participants who are considered so-called "highly compensated employees" and therefore will further depress middle-income workers' savings maximums.

The discussion draft also would impose on higher earners an upfront tax on retirement contributions – on both tax-deferred employee contributions and on employer contributions. This 10-percent surtax would be imposed as contributions are made to a plan. These same contributions would be taxed a second time (at ordinary rates) when the savings are distributed from the plan during retirement. Those subject to the 10-percent surtax, especially those near retirement, could find they would be better off simply saving in a taxable account. Some employers, particularly small business owners, may decide that the tax benefits no longer justify the expense of sponsoring a retirement plan.

Some provisions in your discussion draft create uncertainty and could possibly dissuade individuals from participating in a retirement plan. One element, the requirement that employee contributions above a certain amount to a 401(k) or similar plan be made on a Roth basis will add complexity and could increase administrative costs. The current system is widely understood by employees and changes to the types of vehicles and saving limits could be a disincentive for future savings. The impact on savings behavior of this dramatic shift towards Roth merits serious consideration and discussion by the Committee.

Finally, the repeal of the small employer pension plan startup credit removes a valuable incentive to business owners considering establishing a plan for their workers.

The current structure for employer-provided and individual retirement plans is a key component of the successful U.S. retirement system, which helps working Americans at all income levels to build resources for a financially secure retirement. The Coalition hopes that as tax reform discussions continue, Congress will consider the success of the current retirement tax structure as it weighs comprehensive tax reform legislation.

The Coalition to Protect Retirement appreciates your commitment to tax reform. Your proposal is a vital step in the tax reform process. We look forward to working with you and other key policymakers as the tax reform debate continues.

Sincerely,

The Coalition to Protect Retirement

Coalition to Protect Retirement Members:
American Benefits Council
American Council of Life Insurers
American Society of Pension Professionals & Actuaries
The ERISA Industry Committee
The ESOP Association
Investment Company Institute
Insured Retirement Institute
Plan Sponsor Council of America
Securities Industry and Financial Markets Association
Society for Human Resource Management

cc: Members of the U.S. House of Representatives