How America Saves
THE COALITION TO PROTECT RETIREMENT

July 17, 2017

The Honorable Orrin Hatch
Chairman, Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member, Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Hatch and Ranking Member Wyden:

The Coalition to Protect Retirement (CPR)—composed of the leading trade associations representing retirement plan sponsors, administrators, service providers, and related financial institutions—appreciates your leadership as you develop a tax reform proposal in the U.S. Senate. The Coalition would greatly appreciate the opportunity to meet with you, committee staff, and/or members of your informal tax reform working group to provide input and expand upon our suggestions provided in this letter.

We appreciate past efforts in the Senate to preserve current tax incentives for retirement savings and examine potential ways that retirement savings could be enhanced. The Coalition would like to take this opportunity to emphasize that preserving current tax incentives is vital to retirement security for millions of Americans. To the extent that tax reform considers ways retirement savings could be enhanced, we provide ideas on practical, effective options.

About CPR

The Coalition's mission is to encourage and support retirement savings for American workers through preservation of tax incentives critical to retirement security. The coalition includes: American Benefits Council, American Council of Life Insurers, American Retirement Association, The ERISA Industry Committee, The ESOP Association, Insured Retirement Institute, Investment

Company Institute, Securities Industry and Financial Markets Association, and the Society for Human Resource Management.

Preserving Current Tax Incentives for Retirement Savings Is Vital

Current incentives are very successful in fostering retirement security, capital formation, economic growth and limiting pressure on government programs. With 10,000 Americans reaching retirement age every day between now and 2030, the need for tax incentives to encourage and protect retirement savings has never been greater.[1] The current tax structure for employer-sponsored and individual retirement plans and other private-sector savings solutions have resulted in a broad, successful system that provides significant financial security in retirement for Americans at all income levels. This same tax structure simultaneously contributes very substantially to capital formation and economic growth.

As of September 2016, retirement assets totaled $25.0 trillion—accounting for 34 percent of all household assets in the United States, with: $5.3 trillion held in government defined benefit plans; $2.9 trillion held in private-sector defined benefit plans; $7.0 trillion held in defined contribution plans; $7.8 trillion held in IRAs; and $2.0 trillion held relating to annuity reserves.[2] This multitrillion dollar pool of capital also helps to finance investments that enhance productivity and encourage business expansion.

In 2013, 81 percent of near-retiree households (working households age 55-64) had accumulated retirement assets, accrued pension benefits, or both.[3] Private retirement plans in the United States paid out $5.24 trillion in benefits from 2005 through 2014, playing an essential role in providing retirement income for millions of our nation's seniors.[4] In 2014, there were approximately 685,000 private-sector retirement plans covering 89.9 million participants.[5]

Additionally, the Pension Benefit Guaranty Corporation insured over 41 million defined benefit plan participants in 2014.[6] Other notable private-sector contributions to retirement security include payments in 2015 of $78 billion in annuity payments, $74 billion paid to life insurance

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[1] Insured Retirement Institute Fact Book 2016: *A Guide to Information, Trends, and Data in the Retirement Income Industry*.
[2] Investment Company Institute*, The US Retirement Market, Third Quarter 2016.*
[3] Investment Company Institute analysis of the Survey of Consumer Finances, *Statement of the Investment Company Institute, Brian Reid, Chief Economist, Hearing on "Retirement Savings 2.0: Updating Savings Policy for the Modern Economy,"* Committee on Finance, United States Senate (September 16, 2014).
[4] Employee Benefit Research Institute (EBRI) tabulations of data from the Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts of the United States and the Department of Labor, Bureau of Labor Statistics, Consumer Price Index.
[5] *Private Pension Plan Bulletin, Abstract of 2014 Form 5500 Annual Reports*, U.S. Department of Labor, Employee Benefits Security Administration (September 2016).
[6] Pension Benefit Guaranty Association, *PBGC Data Book at a Glance*, 2014.

policy beneficiaries, $9.6 billion in long-term care benefits, and $18 billion in disability income benefits.[7]

Existing retirement savings incentives have been a critical impetus for individuals to save and for employers to offer and contribute to public and private-sector retirement plans and demonstrate a successful system that benefits retirees, employers and taxpayers. Between 2006 and 2015, employers contributed $5.25 trillion to employer plans.[8] Analysis of 2014 Department of Labor Form 5500 data indicates that 89 percent of 401(k) plan participants are in plans with employer contributions.[9] When a retirement plan is offered in the workplace, 70 percent of American workers who earn between $30,000 and $50,000 a year contribute.[10] Additionally, according to the 2016 SHRM Benefits Survey, 94 percent of employers who responded offered a retirement savings plan in their workplace.[11] A 2016 survey reports that for households with defined contribution plans, tax treatment is "a big incentive to contribute" for 80 percent of households, with 44 percent of households indicating "I probably wouldn't save for retirement if I didn't have a retirement plan at work."[12] A survey of individual annuity owners found that: the tax treatment was important to 86 percent in choosing the product; 70 percent said they saved more for retirement because of the tax treatment; and 80 percent had household incomes under $100,000.[13]

Retirement tax incentives also limit demands for potential increases in federal spending on safety-net government programs. Finally, tax deferral differs fundamentally from other tax incentives because it is not a permanent exclusion from tax.[14] Income tax on retirement savings generally is paid, at ordinary income rates, upon distribution. Not appreciating this distinction can lead to inaccurate perceptions of long-term revenue effects. When the Congressional Budget Office (CBO) examined this in 2016, CBO projected that between 2016 and 2046, payment of "deferred taxes" by retirees will "boost revenues as a share of GDP by about 0.3 percentage points."[15]

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[7] American Council of Life Insurers, *2016 Life Insurers Fact* Book, ACLI tabulations of National Association of Insurance Commissioners (NAIC) data, used by permission.

[8] Employee Benefit Research Institute (EBRI) tabulations of data from the Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts of the United States and the Department of Labor, Bureau of Labor Statistics, Consumer Price Index.

[9] BrightScope and Investment Company Institute, *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2014;* San Diego, CA: BrightScope and Washington, DC: Investment Company Institute, (December 2016).

[10] EBRI (2010) estimate using 2008 Panel of Survey of Income and Program Participation (SIPP) (covered by an employer plan) and EBRI estimate (not covered by an employer plan; IRA only).

[11] The Society for Human Resource Management, *2016 SHRM Benefits Survey*, June 2016.

[12] Investment Company Institute. "Americans Views on Defined Contribution Plan Saving, 2016," *ICI Research Report* (February 2017).

[13] *2013 Survey of Owners of Individual Annuity Contracts,* 2013, Conducted by The Gallup Organization and Mathew Greenwald & Associates for The Committee of Annuity Insurers (2013).

[14] See Investment Company Institute, "Retirement Plan Contributions Are Tax-Deferred—Not Tax-Free," *ICI Viewpoints* (September 16, 2013).

[15] Congressional Budget Office, *The 2016 Long-Term Budget* Outlook, (July 2016).

Coalition Suggestions for Retirement Savings Enhancement and Preservation

As discussions on tax reform have progressed, proposals have raised the possibility of consolidating or reforming current provisions in the tax code and/or creating new, more general savings vehicles. It is the experience of the members of the Coalition that the multiple workplace retirement plan options in the current tax code, coupled with flexibility in plan design, provide employers and employees in different sectors with the important ability to tailor their plans to meet the needs of their workforce. It is our strong view that the current system results in more attractive options, broader and deeper coverage, rather than confusion. Consolidation poses the risk of disrupting retirement savings, rather than enhancing it. The Coalition is certainly open to the potential merits of simplification ideas or new, more general savings vehicles, but thinks it is important to give careful consideration to make sure they do not inadvertently have a negative impact on proven, successful retirement savings plans.

If tax reform includes efforts to enhance retirement savings, the Coalition suggests reviewing several proposals that already have broad, bipartisan support that build on the success of the current system and address specific problems. The following are five examples:[16]

- Remove regulatory barriers and cost concerns that currently prevent many small and start-up businesses from offering retirement plans by facilitating the use of multiple employer plans (MEPs) and providing a new deferral-only safe harbor plan option such as the "Starter K";
- Improve the ERISA safe harbor to provide greater certainty for plan sponsors when selecting guaranteed lifetime income products for their retirement plans;
- Modernize the rules for electronic delivery of plan notices and disclosures to participants;
- Increase the age at which required minimum distributions (RMDs) must begin to reflect increases in life expectancy; and
- Make the Small Employer Pension Plan Start-up Credit more generous and include a bonus credit for automatic enrollment.

Finally, the Coalition has concerns about an idea that is frequently considered in tax reform—potential movement from a highly successful retirement system based on tax deferred savings incentives to Roth accounts that rely instead on tax-exempt distributions. We urge caution because of the risk of negative behavioral changes that could impair retirement security. Any changes brought about by tax reform should be designed to promote greater savings and provide higher levels of retirement security.

Thank you for your consideration of the Coalition input on these vital issues. We will reach out in the near future to try to schedule meetings with you, Senate Finance staff, and/or members of your informal tax reform working group.

[16] A package of retirement system improvements was approved by Senate Finance Committee on September 21, 2016 on a 26-0 bipartisan vote as part of the Retirement Enhancement Savings Act of 2016.

Sincerely,

The Coalition to Protect Retirement

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

Cc: The Honorable Charles E. Grassley