

PRESERVE THE EMPLOYER-PROVIDED RETIREMENT SYSTEM

October 31, 2011

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 Joint Select Committee on Deficit Reduction to preserve the current tax treatment that both encourage 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 approximately 670,000 private-sector defined contribution plans covering 67 million participants and over 48,000 private-sector defined benefit plans covering 19 million participants. Recently enacted enhancements to the defined contribution system including automatic enrollment and automatic escalation are expanding participation and improving retirement preparedness. The Bureau of Labor Statistics reports that in March 2011 employer-provided retirement plans were available to 73 percent of full time and 64 percent of all (i.e. both full-time and part-time) private-sector workers. This success includes millions of low and moderate-income workers, the focus of efforts to expand coverage.
- **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.** A recent proposal authored by William Gale of the Brookings Institution would change the structure of the tax incentives for retirement savings from a tax deferral to a tax credit. In recent testimony before the Senate Committee on Finance, Jack VanDerhei, Research Director at the Employee Benefit Research Institute (EBRI), stated that under the Gale proposal the average reductions in 401(k) accounts at the normal retirement age under Social Security would range from a low of 11.2 percent for workers currently age 26-35 in the highest-income groups, to a high of 24.2 percent for workers in that age range in the lowest-income group. Another analysis by EBRI reveals that the recommendation 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. Low and moderate income workers are much more likely to have retirement savings if they are offered a retirement plan at work. The Saver's Credit benefits lower-income workers who save through these plans.
- **Retirement plans play an important role in the capital markets.** As of March 2011, tax qualified retirement plans held \$18.1 trillion in assets, of which approximately \$14 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 BENEFITS COUNCIL

AMERICAN COUNCIL OF LIFE INSURERS

AMERICAN SOCIETY OF PENSION PROFESSIONALS & ACTUARIES

CALIFORNIA SMALL BUSINESS ASSOCIATION

COMMITTEE OF ANNUITY INSURERS

THE COMMITTEE ON INVESTMENT OF EMPLOYEE BENEFIT ASSETS (CIEBA)

THE ERISA INDUSTRY COMMITTEE

THE ESOP ASSOCIATION

FINANCIAL EXECUTIVES INTERNATIONAL

FINANCIAL PLANNING ASSOCIATION

THE FINANCIAL SERVICES INSTITUTE

THE FINANCIAL SERVICES ROUNDTABLE

INSURED RETIREMENT INSTITUTE

INVESTMENT COMPANY INSTITUTE

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS

NATIONAL ASSOCIATION OF MANUFACTURERS

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

NATIONAL SMALL BUSINESS ASSOCIATION

NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION

PLAN SPONSOR COUNCIL OF AMERICA

RETIREMENT INDUSTRY TRUST ASSOCIATION

SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION

SMALL BUSINESS COUNCIL OF AMERICA

SOCIETY FOR HUMAN RESOURCE MANAGEMENT

THE SPARK INSTITUTE

U.S. CHAMBER OF COMMERCE

U.S. WOMEN'S CHAMBER OF COMMERCE