

The Retirement Savings for Working Families Act of 2007 (H.R. 2724)

ENSURE RETIREMENT SAVINGS ADEQUACY IN THE 110TH CONGRESS

PURPOSE: SAVINGS INCENTIVES FOR ALL

In order to ensure that low-income families can build adequate retirement savings to achieve greater financial independence in their later years of life, improvements to the Saver's Credit are needed. The Saver's Credit creates an incentive for lower- and middle-income households to contribute to retirement savings accounts by matching some or all of eligible contributions.

BACKGROUND: LEGISLATIVE LIMITATIONS UNDERCUT GOAL

Federal policymakers have long provided incentives to individuals to save for retirement. These subsidies have increased as employers shifted from traditional pension (defined benefit) plans to defined contribution plans like 401(k)s. In 2005, federal subsidies to individuals who participated in employer-sponsored plans exceeded \$102 billion.

Retirement savings are an increasingly critical supplement to Social Security. Fifty-two percent of households now own a retirement savings plan. However, low-income people are much less likely to save for retirement than their higher-income peers. In the lowest-income families (those with incomes in the bottom 20% of the distribution in 2004), 50.6% of those eligible declined to participate in a retirement savings plan. By contrast, only 5% of eligible workers in the highest-income families (those with incomes in the top 10% of the distribution) declined to participate.

The current structure of retirement incentives does little to help those who have the fewest resources. Although the implementation of Automatic Enrollment, which was encouraged by the *Pension Protection Act of 2006* (P.L. 109-280), has increased retirement plan participation among low-income workers, more must be done to create incentives to save and ensure income adequacy. A stronger Saver's Credit will help those workers build their savings to ensure an adequate retirement and financial security.

IMPROVING THE SAVER'S CREDIT TO EXPAND RETIREMENT SECURITY

The Saver's Credit provides a tax credit for contributions made by a tax filer into an IRA or employer-sponsored retirement plan (e.g., a 401(k) or 403(b)). Eligible families must have incomes below \$50,000. More than five million tax filers took advantage of the credit in 2005. However, its impact is limited due to design flaws.

In 2007, Congress took steps toward improving the Saver's Credit when *The Retirement Savings for Working Families Act* (H.R. 2724) was introduced in the 110th Congress. If enacted, the legislation will:

- Expand the credit to additional middle-income working families: income eligibility levels would be increased to \$30,000 for single filers and \$60,000 for joint filers;
- Require the credit to be deposited directly into the retirement account as a matching contribution through IRS Form 8888 instead of through a tax deduction;
- Establish a flat 50% match so that all eligible savers will receive equitable tax treatment, as opposed to the current 10%, 25%, and 50% ratio; and
- Index the contribution amounts to inflation (the current contribution limit is \$2,000).

ENSURING ALL HAVE INCENTIVES TO GROW SAVINGS FOR RETIREMENT

The Retirement Savings for Working Americans Act is bipartisan legislation that bolsters long-term economic growth, reduces poverty among senior citizens, and most importantly, promotes saving for millions of families. It is sponsored by Congressmen Rahm Emanuel (D-IL) and Jim Ramstad (R-MN).