

Statement of Judy A. Miller
on behalf of the
American Society of Pension Professionals and Actuaries

Ways and Means Committee Hearing
Tax Reform and Tax-favored Accounts
April 17, 2012

Thank you Chairman Camp, Ranking Member Levin and members of the Committee. I am Judy Miller, Chief of Actuarial Issues and Director of Retirement Policy for the American Society of Pension Professionals and Actuaries (ASPPA). ASPPA's more than 8,000 members work with retirement plans of employers of all types, but our primary focus is plans for small business.

Two key features distinguish retirement savings tax incentives from other incentives in the Code – the deferral nature of the incentive, and the nondiscrimination rules that make employer-sponsored plans very efficient at delivering benefits across the income spectrum:

- First, unlike other tax incentives, incentives for retirement savings are *deferrals*, not permanent exclusions.

When employer-paid health benefits are excluded from income, or mortgage interest is deducted, those amounts will never be taxed. With a traditional retirement savings account, no income taxes are paid on contributions when they are added to the account. However, those same contributions *are* included in taxable income when the amounts are paid from the plan. In other words, **every single dollar exempt from tax now will be subject to income tax in the future.** Since most of those retirement years are outside the government's 5 or 10 year budget window, looking at the so-called "tax expenditure" for defined contribution retirement plans on a short-term cash basis greatly overstates the cost of the incentive. **In fact, new estimates by**

former JCT staff show that a better measure of the expenditure for defined contribution plans is more than 50% LESS than the JCT cash basis estimate over a 5-year period. So as you consider these issues, let's not forget this is a deferral. **The amount of revenue you might think you are raising by cutting retirement savings incentives today is not real revenue gain – it's a bookkeeping fiction.**

- The second distinguishing feature is the non-discrimination rules that make sure incentives for retirement plans *don't* discriminate in favor of the highly paid. The result is this tax incentive is *more progressive* than the current progressive tax code. Households making less than \$100,000 pay 26% of all income taxes, but get over 60% of the benefits of the tax incentive for defined contribution plans. And this analysis actually *understates* the benefit for these households because it doesn't recognize that a good part of a small business owner's "tax savings" is actually transferred to their workers in the form of contributions.

Let me explain. A small business owner usually considers a plan when the business has finally become profitable. The owner is shown how setting up a retirement plan can save enough on their *personal* income taxes to pay for most of the cost of contributions, like matching contributions, required for employees by the nondiscrimination rules.

It's a beautiful thing, really. *Deferred* income taxes for the owner converted to *current* contributions for workers.

Data clearly shows the key to promoting retirement security is workplace savings. Over 70% of workers earning from \$30,000-\$50,000 will participate in a plan at work, but less than 5% will save through an IRA on their own. Bureau of Labor Statistics data shows 78 percent of all full time workers have access to a workplace retirement plan, with 84 percent of those workers participating. Almost 80% coverage is a success story. More needs to be done, but the Committee should build on the success of the system. We support the auto-IRA proposal in Mr. Neal's bill, for example, as a way to expand workplace savings by building on the current structure.

Recent tax reform proposals include dramatic cuts in maximum contribution limits, a cap on the value of the current year's exclusion for households making

over a certain dollar amount, or conversion of the current year's income exclusion to a credit. All of these proposals would reduce the incentive for small business owners to sponsor a workplace retirement plan, and would be a big step in the wrong direction.

I have over 20 years experience with actually selling plans to small business owners. With rare exceptions, the current year's tax savings was a critical factor – often the only factor – supporting the decision to put in a plan. It's not that small business owners are selfish. In real life, they aren't sitting on lots of cash. Savings generated from the retirement plan tax incentives provides cash to help pay for contributions required by the nondiscrimination rules. Reducing the incentive would literally reduce the cash the small business owner has to work with. There is not a doubt in my mind that reduced incentives will mean fewer plans, and less contributions made toward workers' retirement.

One of the questions posed for this hearing is whether or not there are too many types of plans. The simple answer is 'No'. A proposal to combine all defined contribution plans into a single type of plan might look like simplification on paper, but in practice combining 401(k), 403(b) and 457(b)'s into a single type of plan would disrupt savings for employees of state and local governments and other nonprofits.

And believe me, when you talk to an employer about setting up a plan, options and flexibility are *not* the enemy. One size definitely does not fit all.

That's not to say simplification is not needed. For example, we support the Small Business Pension Promotion Act, sponsored by Representatives Gerlach, Kind and others. We would be pleased to work with the Committee on these and other simplifications.

In summary, the road to improved retirement security for working Americans is expanded workplace savings. Reducing incentives for small business owners to sponsor retirement plans is the opposite of what needs to be done.

I would be pleased to discuss these issues further with the Committee or answer any questions that you may have.