



PORTMAN-CARDIN PENSION BILL IS WISE USE OF BUDGETARY RESOURCES

Some have attempted to criticize the Portman-Cardin bill because it involves a net loss of federal revenue over the ten-year budget window. While it is true that the bill does involve some loss of federal revenue in the short-term, that loss is very small relative to the overall federal budget and is more than made up by additional revenues received outside the 10-year window. More importantly, the Portman-Cardin bill would increase savings, which not only strengthens the long-term financial security of individuals and families but also produces a number of positive effects for the U.S. economy as a whole.

- **Retirement Savings are an Important Source of Long-Term Investment Capital and an Engine of Economic Growth.** Retirement savings aids our economy by providing a ready source of long-term investment capital. Assets in employer-sponsored retirement plans and IRAs total more than \$6 trillion (Federal Reserve Board, 2001) and pension plan assets account for 26.2% of all equity holdings and 12.3% of all taxable bond holdings in the U.S. (EBRI, 2000). This pool of capital makes possible additional productivity-enhancing investments by corporations, leading to greater production of goods and services and higher real wages for workers. By accelerating 401(k) and IRA limits, expanding the Savers' Credit for low-income savers, and reducing vesting schedules, the Portman-Cardin bill would increase retirement savings and spur these beneficial economic effects.
- **Tax Expenditures for Retirement Savings Produce Substantial Retirement Benefits for Workers.** Evidence demonstrates that tax expenditures for retirement savings are a highly efficient use of federal dollars. Data shows that the benefits paid by employer-sponsored retirement plans are 4.5 times as large as the foregone federal tax collections attributed to them (Department of Commerce, 1998; OMB, 2000). Thus, the retirement savings proposals in the Portman-Cardin bill would clearly be a sound federal expenditure that will translate into meaningful retirement benefits for American families.
- **Retirement Savings Incentives Are Needed to Raise Historically Low Savings Levels.** Americans need to save more. While our nation's personal savings rate hovered near 10 percent from 1964 to 1986, it has fallen precipitously in recent years, and we experienced the first negative savings rate since the Great Depression as recently as 2000. These low savings levels lag substantially behind those seen in other major industrialized nations, and can have detrimental consequences for families' financial security and for our economy as a whole. To reverse this harmful savings trend, we need to provide better incentives to save and to change the bias in our tax system against savings. The Portman-Cardin bill makes targeted changes to do just that.
- **Retirement Savings Incentives Can Actually Raise Federal Revenues.** Not only do federal tax expenditures for retirement savings efficiently produce retirement benefits for working Americans, they can actually raise federal revenues when analyzed over the long-term. This is because the revenue effect of tax changes are only measured over a 10-year period. In the case of retirement savings incentives (in which contributions typically are excludible or deductible from income but taxable as ordinary income when withdrawn), this 10-year budget window does not capture the monies that flow back to the federal fisc when withdrawals are taken in retirement.
- **Savings Incentives Address Baby-Boom Retirement Needs.** The Portman-Cardin bill addresses the exact issue that is likely to put the most pressure on the federal budget over the long-term – namely, the retirement needs of an aging population. With the looming retirement of the baby boom generation, there may be no better use of budgetary resources than promoting retirement savings.