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STATEMENT FOR THE RECORD
UNITED STATES SENATE COMMITTEE ON FINANCE
HEARING ON TAX REFORM OPTIONS: *PROMOTING RETIREMENT SECURITY*
SEPTEMBER 15, 2011

The American Benefits Council (Council) and the American Council of Life Insurers (ACLI) appreciate the opportunity to provide this written statement for the record in conjunction with today's U.S. Senate Committee on Finance Hearing on "Tax Reform Options: Promoting Retirement Security."

The Council is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. Collectively, the Council's members either sponsor directly or provide services to retirement and health plans covering more than 100 million Americans.

The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent more than 90% of the assets and premiums of the U.S. life insurance and annuity industry. ACLI member companies offer insurance contracts and investment products and services to qualified retirement plans, including defined benefit pension, 401(k), 403(b) and 457 arrangements. ACLI member companies also are employer sponsors of retirement plans for their employees.

Summary:

Employer-sponsored defined contribution and defined benefit retirement plans are fundamental to our nation's retirement system. Retirement plans like those sponsored and administered by Council members successfully assist tens of millions of families in accumulating retirement savings and will provide trillions of dollars in retirement income. Congress has adopted rules that facilitate employer sponsorship of these plans, encourage employee participation, promote prudent investing, allow operation at reasonable cost, and safeguard participant interests through strict fiduciary obligations. While individuals have understandably heightened retirement income concerns resulting from the recent economic downturn, it is critical to acknowledge the vital role employment-based retirement plans play in ensuring personal financial security and in generating savings to fuel the type of capital investment the economy needs to generate long-term growth.

Today's retirement laws and policies are working well and are aiding individuals (supported by their employers) to accumulate savings and generate retirement income. For that reason, the first, and most important, principle we urge this Committee to consider in the context of tax reform is to **do no harm** to the existing retirement system. We urge policymakers to avoid any actions that would make it more difficult for individuals to save for retirement or that would discourage employers from starting or continuing to maintain retirement plans. Thus, the wisest course in most instances will be to *not* enact new laws and regulations that would interrupt the successes of the current system.

Dramatic changes in the rules and incentives governing retirement plans are perilous and unintended consequences are likely. We simply cannot afford to gamble with the retirement security of working and retired Americans. In this context, it is important to remember that the employer-sponsored retirement system is premised on its voluntary nature – employers can choose to provide retirement plans to their workers but they are not required to do so. Changes in the tax incentives would require each plan sponsor to reevaluate and completely redesign its retirement plan offerings and could force them to consider eliminating their plans entirely. Even seemingly small changes in laws and regulations often generate confusion and enormous costs for individuals and employers.

As this Committee considers the retirement area (in the context of tax reform or otherwise), it is critical that you focus on what policies will help individuals and employers generate retirement income sufficient for employees to maintain their standard of living. Too often, retirement policy is driven by extraneous considerations, such as the need to generate revenue for the federal government. When these revenue considerations are at the forefront, the result is often added and unnecessary complexity or cost of plan maintenance (such as the recent proposals to raise the premiums defined benefit plan sponsors must pay to the Pension Benefit Guaranty Corporation (PBGC)), or direct harm to Americans' retirement prospects (such as the repeated reduction in retirement plan dollar limits in the 1980s and early 1990s).

That does not mean more should not be done to encourage savings. Even under the current savings levels, many Americans are at risk of a financially insecure retirement. Policies that further bolster retirement security for future generations should be carefully considered – but those policies must build upon the existing successful structure to generate greater retirement savings.

The current employment-based retirement system is working for millions of American workers and retirees.

Today, the vast majority of large employers offer a defined contribution plan and an increasing number of small employers do as well. According to the Bureau of Labor Statistics, 73% of full-time and 64% of all private industry workers had access to retirement benefits as of May 2011.¹

Over the past three decades, 401(k) and other defined contribution plans have grown dramatically in number, asset value, and employee participation. Private-sector defined contribution plans cover more than 80 million active and retired workers. In addition, more than 10 million employees of tax-exempt and governmental employers participate in 403(b), 457, and TSP defined

¹ See BLS, Employee Benefits in the United States, March 2011, available at <http://www.bls.gov/ncs/ebs/sp/ebnr0017.pdf>

contribution plans. There are also tens of millions of participants and retirees in private-sector defined benefit pension plans.

This broad coverage and participation results from the unique advantages employment-based plans bring to bear for employees when it comes to retirement savings and income. These advantages would likely not be available for millions of working Americans if it were not for the existing tax incentives that motivate employee saving and that encourage employers to maintain and contribute to retirement plans.

When discussing retirement plans, media focus is often on employee deferrals into 401(k) plans. Yet, many employers make matching, non-elective, and profit-sharing contributions to complement employee deferrals and share the responsibility for financing retirement. Other employers fund defined benefit plans that further add to the retirement security of their employees. Indeed, recent surveys of defined contribution plan sponsors found that at least 95% make some form of employer contribution.² While certain employers suspended matching and profit sharing contributions due to the current economic downturn (and, in some cases, because of a dramatic spike in their defined benefit plan funding obligations), the vast majority have not, and in many cases the suspended matches have already been reinstated.

Employees participating in employment-based plans also benefit from enhanced bargaining and purchasing power resulting from economies of scale, fiduciary decision-making and oversight, and access to beneficial products and services. Moreover, Congress has established detailed rules to ensure that benefits in defined contribution plans are delivered across all income groups. For example, extensive coverage, nondiscrimination and top-heavy rules promote fairness regarding which employees are covered by a defined contribution plan and the contributions made to these plans.

Employers are also in a strong position to know the retirement needs of their employee populations and can tailor retirement programs to these needs. With the growth in defined contribution plan coverage, those plans have continued to evolve and improve, with plan sponsors and service providers developing many features, including automatic contribution escalation, single-fund investment solutions, and investment education programs. These legislative changes and market innovations (often supported by legislative clarifications) have improved both employee participation rates and employee outcomes. For example, the Pension Protection Act of 2006 (PPA) included several landmark changes to the defined contribution system that are already beginning to assist employees. PPA encouraged automatic enrollment (which studies demonstrate significantly increases participation rates, particularly among lower-income, younger, and minority workers) and automatic contribution escalation. Adoption of these features has increased dramatically. In PPA, Congress also provided new rights to diversify contributions made in company stock, accelerating existing trends toward greater diversification of 401(k) assets.

And the fact is that these rules work and incremental changes adopted in recent years have made them operate even better. There are still gaps; more can and should be done to expand coverage and to increase contributions. But one of the most important advantages of the current retirement savings tax incentive structure is that it efficiently produces retirement benefits for millions of American families. Analyses have shown that for every dollar of tax expenditure devoted to tax-preferred workplace retirement plans, these plans deliver between four and five dollars in ultimate

² Report on Retirement Plans – 2007, Diversified Investment Advisors (Nov. 2007).

retirement benefits to plan participants.³ This multiplier effect produces a remarkable amount of benefits for retirees, with the Department of Commerce reporting that in 2010 employer-sponsored retirement plans paid out \$836 billion in benefits,⁴ substantially more than the \$577 billion in retirement benefits paid by Social Security in the same year.⁵

The importance of the current system is demonstrated by the fact that retirement plans held approximately \$18.1 trillion in assets as of March 31, 2011.⁶ These trillions of dollars in assets, representing ownership of a significant share of the total pool of stocks and bonds, provide an important and ready source of investment capital for American businesses. This capital permits greater production of goods and services and makes possible additional productivity-enhancing investments -- investments that help companies grow and add jobs to their payrolls and raise employee wages.

The current tax incentive structure is the foundation of our successful retirement savings system.

The U.S. retirement savings system successfully encourages individuals to save for retirement by providing tax incentives -- typically income tax exclusions or deductions -- for contributions to employer-sponsored retirement plans and IRAs, up to certain limits. This tax structure provides a strong and effective incentive for individuals at all income levels to save for retirement and encourages employers to sponsor plans that deliver meaningful benefits to Americans up and down the income scale.

The fundamental building blocks of the current tax incentive structure are:

Contributions are Excludible or Deductible From Income: Contributions to qualified workplace retirement plans, both those made by employees and those made by employers, are generally excludable from employees' taxable income, and contributions to traditional Individual Retirement Accounts (IRAs) are tax-deductible in some instances. This pre-tax treatment allows individuals to save more from each paycheck than would be the case with after-tax contributions.⁷ For a worker in the 25% income tax bracket, for example, a \$20 deferral into a 401(k) plan will only reduce take home pay by \$15, making saving into the plan an efficient economic proposition.

Employer Contributions are Exempt from Payroll Tax: Because employer contributions to plans are not regarded as "wages," neither employees nor employers owe payroll taxes on these amounts. These payroll tax savings are most significant for modest-income employees earning

³ See, e.g., American Benefits Council, *Myths and Facts About the Savings Provisions of H.R. 1776* (July 2003) ("Benefits paid by employer-sponsored pensions are 4.5 times as large as the foregone federal tax collections attributed to them.") analyzing Department of Commerce and Office of Management and Budget data); Association of Private Pension and Welfare Plans, *Benefits Bargain: Why We Should Not Tax Employee Benefits* (May 1990) ("The data suggest that in the pension area, the benefits paid by the plan are 4.6 times the foregone federal tax collections attributed to them.").

⁴ 91 Bureau of Economic Analysis, U.S. Dep't of Commerce, Survey of Current Business 8, National Income and Product Accounts Table 6.11D (Aug. 2011).

⁵ Social Security Trustees Report 2011.

⁶ See http://www.ici.org/pressroom/news/ret_11_q1.

⁷ Contributions to Roth 401(k) Accounts and Roth IRAs are not deductible or excludable, but they derive a comparable tax benefit when the taxpayer withdraws assets in the form of an exclusion from tax on earnings while the funds were in the account.

amounts below the Social Security wage base (\$106,800 in 2010) since payments in cash rather than into the plan would be fully subject to payroll taxes.

Taxes on Investment Gains are Deferred: There is no tax on investment gains while funds remain inside the retirement plan. This deferral is critical for incenting savings as workers know they will not have to divert income year-by-year to pay tax on their retirement savings. It is critical to remember that pre-tax contributions made to defined contribution plans and IRAs – and the earnings on these contributions – do not escape taxation but rather are taxed when withdrawn. Thus, the federal tax incentives devoted to spur savings are not lost but are reclaimed as additional tax revenue when individuals make withdrawals.

Saver's Credit Supplements Exclusion/Deduction: The Saver's Credit, which provides a credit of up to \$1,000 (\$2,000 if married and filing jointly) to low- and middle-income individuals who contribute to defined contribution plans and IRAs, provides a more robust savings tax incentive for eligible individuals than would be provided by the exclusion or deduction alone. Between availability of the underlying income tax exclusion/deduction for contributions, payroll tax savings on employer contributions and the supplemental Saver's Credit, eligible individuals are provided with a very significant tax incentive to contribute to retirement accounts. It is one that far exceeds mere proportionality to their income tax bracket.

Contributions Are Limited and Rules Promote Fairness: Congress has imposed maximum dollar limits on individual contributions to defined contribution plans and IRAs. In 2011, the maximum individual contributions are generally \$5,000 to IRAs (\$6,000 if 50 or older) and \$16,500 to defined contribution plans (\$22,000 if 50 or older). Separate limits also apply to total combined employer and employee contributions for any employee and to the maximum benefit a worker can accrue at retirement in a defined benefit plans. These limits act to constrain the tax-preferred savings of upper-income savers while allowing robust tax-preferred savings by low- and middle-income households, and retaining enough of a personal incentive for business owners and decision-makers to set up and maintain plans for their workforce. In addition, a substantial statutory and regulatory regime requires employer plans to adhere to coverage, nondiscrimination and top-heavy rules, which are designed to ensure that individuals at all income levels receive fair benefits.

The first principle of retirement tax policy: Do no harm.

Today's retirement laws and policies are working well and are helping many millions of families (supported by their employers) accumulate savings and generate retirement income. For that reason, the first, and most important, principle we urge this Committee to consider in the context of tax reform is to **do no harm**. Policymakers should avoid actions that make it more difficult to accumulate savings and generate sufficient retirement income. Since the employment-based retirement system is the most effective and significant source of retirement saving, any changes in that area should in particular be approached with extreme caution. The wisest course in most instances will be to *not* enact new laws that would interrupt the successes of the current system.

Dramatic changes in the rules and incentives governing retirement plans are not warranted and would be perilous. Unintended consequences are likely and we simply cannot afford to play Russian roulette with the retirement security of working and retired Americans. In this context, it is important to remember that the employer-sponsored retirement system is premised on its voluntary nature – employers can choose to provide retirement plans to their workers but they are not required to do so. Changes in the tax incentives would require each employer to reevaluate

and completely redesign retirement plan offerings and could lead to eliminating the plans entirely. Even seemingly small changes in laws and regulations generate confusion and enormous costs for individuals and employers.

Americans do not want to see their retirement plans changed. In a 2011 study, 88% of surveyed households were against *eliminating* the tax advantages of defined contribution plans and IRAs and 82% were against *reducing* such advantages.⁸ Strong opposition to changing the tax incentives for defined contribution plans and IRAs existed *even* among households that did not have a defined contribution account or IRA (83% opposed elimination and 75% opposed reduction) and among households making less than \$30,000 (84% opposed elimination and 74% opposed reduction).⁹

It is critical that employees' current retirement assets (and the assets they still need to accumulate in the future) not be raided now to fund other government initiatives. Those current (and future) savings should not be raided to finance more government spending, deficit reduction, or to offset other tax initiatives (including lower marginal tax rates). It is critical to note that proposals that purport to increase short-term Federal tax receipts by redirecting, eliminating, or eroding the existing retirement savings tax incentives achieve those additional taxes *largely because individuals are saving less for retirement*. We cannot afford to let that happen. Even though the current system is working, we need to do more, not less, in the way of promoting retirement savings.

Particularly troublesome is that any short-term revenue gain that might be derived from changes in the retirement tax incentives is largely illusory and cannot responsibly be used to offset other long-term government initiatives. The revenue scoring that is performed by the Treasury Department and the Joint Committee on Taxation generally produces estimates in five- and ten-year budget windows, using a cash-flow analysis. Under that methodology, the taxes an employee will pay when he or she retires and starts taking taxable plan distributions generally occur *outside* the budget window. Proposals that reduce retirement savings today will mean the government actually collects less revenue in years outside the budget window because retirees will have less taxable retirement income. As a result, any overall budgetary savings that might result would be considerably smaller than the short-term revenue estimates might suggest. In fact, a recent study completed by former staff of the Joint Committee on Taxation finds that the present value of tax benefits attributable to current-year retirement savings contributions is as much as 77% *less* than estimates of revenue loss under Treasury's methodology. In effect, proposals that reduce retirement savings would actually increase the burden on future generations. That type of short-sighted thinking will not help the nation address its structural budget deficits, nor would it offset the long-range costs of other changes in the tax law.¹⁰

Two sweeping proposals that have gained some recent attention illustrate the dangers that could flow from otherwise well-intentioned rewriting of the current retirement rules.

⁸ Investment Company Institute, *Commitment to Retirement Security* (Jan. 2011) available at http://www.ici.org/pdf/ppr_11_com_ret.pdf.

⁹ *Id.*

¹⁰ Judy Xanthopoulos and Mary M. Schmitt, *Retirement Savings and Tax Expenditure Estimates*, American Society of Pension Professionals & Actuaries, May 2011, available online at: http://www.asppa.org/DocumentVault/pdfs/GAC/2011/RetirementSavingsAndTaxExpenditures_ASPPAMay2011.pdf.aspx

A "20/20" cap on retirement plan contributions would undermine retirement security.

One option for deficit reduction that was explored in the National Commission on Fiscal Responsibility and Reform Report was to lower the cap on annual total employer and employee retirement plan contributions to the *lesser* of 20% of the employee's compensation *or* \$20,000. This proposal should be rejected. The serious harm to retirement security that would result from this tax increase cannot be justified by any short-term deficit reduction.

Today, total employee and employer contributions to 401(k) and other defined contribution plans cannot exceed the lesser of 100% of compensation or \$49,000 per year.¹¹ Those contribution levels can only be reached for owners and higher-paid employees if the plan satisfies tough non-discrimination rules that ensure participation and contributions for rank-and-file workers. The existing tax incentives play a critical role in encouraging key decision-makers to sponsor and maintain plans. When a typical small business owner evaluates the significant legal responsibilities, risks, and costs of plan sponsorship, it is often the promise of meaningful tax benefits for key employees that constitutes the deciding factor in choosing to maintain a retirement plan. If tax benefits to decision-makers are substantially diminished, businesses that would have considered plan sponsorship will no longer do so and existing plan sponsors will reduce matching contributions or stop offering retirement plans altogether. All employees will suffer.

The 20/20 proposal would severely depress aggregate retirement savings *for all income levels*. The Employee Benefit Research Institute (EBRI) found that only 5% of workers save for retirement on their own without the benefit of an employer sponsored plan. By contrast, 70% of workers earning between \$30,000 and \$50,000 participate in employer-sponsored retirement plans when they are offered. Preliminary EBRI analysis of the 20/20 proposal projects reductions in 401(k) balances at retirement of between 5% and 14% across all income levels. Younger savers with the lowest income would be hit particularly hard, with projected savings at retirement dropping by about 10% for individuals under age 45 in the bottom income quartile.¹² And this EBRI analysis does not even take into account the fact that the 20/20 proposal could cause many plans to be terminated and would cause other employers to eliminate or reduce matching and other employer contributions.

Under current limits, working families with less than \$100,000 in income receive 62% of the tax benefits associated with qualified retirement plans – despite paying only 26% of the total personal income taxes received by the Federal government.¹³ In other words, lower- and middle-income taxpayers receive more than twice as large a share of savings tax breaks as the share of income taxes they actually pay. As a practical matter, those low- and middle-income plan participants would suffer the most under the 20/20 proposal when they lose access to employment-based retirement plans and the employer contributions that go with them.

¹¹ In many cases, key employees of small businesses do not reach these levels every year. Many contribute more during years their business is doing well and less in other years.

¹² "Capping Tax-Preferred Retirement Contributions: Preliminary Evidence of the Impact of the National Commission on Fiscal Responsibility and Reform Recommendations." *EBRI Notes*, Vol. 32, No. 7 (Employee Benefit Research Institute, July 2011): 2-6.

¹³ ASPPA Release May 31, 2011 available at: <http://www.asppanews.org/2011/05/31/asppa-research-shows-savings-from-cutting-retirement-savings-plan-incentives-are-dramatically-exaggerated/>

Replacing exclusions and deductions with tax credits could cause a dramatic decline in plan sponsorship and significantly reduce overall retirement savings.

One proposal before the Committee today suggests replacing all exclusions and deductions for retirement savings with a flat 18% tax credit that would be deposited directly into the individual's retirement savings account (the "18% match proposal"). This restructuring of the current system (and previous proposals like it) would be disruptive and counterproductive. They would cause a steep decline in retirement plan sponsorship and would lead directly to a significant reduction in retirement savings across all income classes.

Proponents of the 18% match assert that the current tax incentive system is not the optimal structure, finding fault with a retirement savings tax exclusion that provides a tax benefit proportional to an individual's income tax bracket. This critique is misplaced. While it is true that pre-tax treatment provides a greater percentage tax benefit to those in higher tax brackets, this is nothing more than the logical extension of our progressive income tax structure (under which nearly 47 million tax filers have *no* federal income tax liability and the top quintile of filers bear 87.5% of the liability). The fact that income tax benefits for retirement savings flow to those who pay income tax seems an insufficient basis to condemn the current structure. This critique also fails to recognize that 79% of the federal tax incentives for defined contribution plans are attributable to taxpayers with less than \$150,000 of adjusted gross income.¹⁴

Proponents of the 18% match proposal assert that (1) many taxpayers would be better off under the proposal and (2) that \$450 billion of deficit reduction would result over the next ten years. Those claims are based on data derived under the assumption that all savings would continue at the same level for all income classes under the proposal. That assumption is flawed. Many current participants would experience tax increases under the 18% match proposal because the tax incentive is reduced relative to current law. To make matters worse, they would also have lower retirement savings and, therefore, less retirement security. At best, even if savings behavior did remain unchanged as proponents assume, the 18% match would be a tax increase for all taxpayers with any income above the 15% tax bracket. Thus, the proposal would reduce the incentive to save for any individual with taxable income of over \$34,500 (or over \$69,000 for couples filing jointly). And taxpayers at all income levels would also face the very real risk of higher state income tax burdens under the 18% match proposal.

But the problems that would be caused by the 18% match proposal go well beyond its assumptions. Although many of the details of the proposal are undetermined¹⁵, a few things are clear. First, as with the 20/20 proposal, the 18% match would substantially reduce the incentive for key business decision-makers to have a plan. Even where the business did keep a plan in place it is likely that any employer matching contributions would be curtailed substantially or

¹⁴ American Society of Pension Professionals and Actuaries, *Estimated Benefits of Tax Expenditure Estimates for Defined Contribution Plan Participants and Retirees with Account Balances* (Aug. 2009) (analyzing IRS data), available at <http://www.asppa.org/document-vault/pdfs/mediaroom/LTENYT082509.aspx>.

¹⁵ To date, proposals such as these have been silent on the myriad critical details that would need answers in connection with implementation of a tax credit structure in lieu of the current exclusions. For example, the critical issue of how distributions would be taxed is not clear. If they are fully taxable, the proposal would, in effect, be double taxing certain income. If an adjustment is made, considerable complexity would be added. Other issues that are not clearly addressed include the payroll tax treatment of employer contributions, the transition to the new system, and rules that would prevent individuals from withdrawing the government match prematurely.

eliminated. The fact is that the 18% tax credit provides so little benefit to a business owner (especially when compared to other available investment options) that there would, in many instances, not be sufficient incentive for a business entrepreneur to take on the costs, responsibilities and risks of maintaining a retirement plan. As indicated above, when plan sponsorship declines, all employees suffer.

For those employers who might still continue to maintain plans under the 18% match, most other employer contributions to retirement plans, like profit sharing contributions, could well become a distant memory. The reason is simple. Under the 18% match proposal, if an employer were to contribute \$1,000 to each employee's retirement account, the government would then contribute \$180 to the individual's account. The \$1,180 in the employee's account would be locked in. The employee could not access the \$1,000 employer contribution without incurring substantial taxes and penalties. The \$180 government match could not be withdrawn for any reason for some period of time (perhaps not until retirement). The problem is that employees would immediately owe income tax on the \$1,000 employer contribution, even though they may not even have the money to pay the tax. Employers will not want to put their employees into a situation where they are forced to pay income tax today on wages they never saw, in order to get a small government match that they may not be able to access until retirement.

Furthermore, the majority of 401(k) plans with matching contributions provide a match of at least 50% with respect to employee contributions. This provides a powerful incentive to save. Employers have found that the match must be sufficiently large to get the employees' attention. It is not at all clear that the "government match" under the 18% match proposal would be a sufficient incentive to save. Younger employees, in particular – the very people who should be encouraged to save – will be reluctant to set aside money today in order to get a small government match.

Finally, moving to this complex new regime would create great confusion among individuals, thereby deterring savings. This would be extremely counterproductive at a time when all have agreed that the way to foster savings is to keep things simple. Reducing and impeding the incentives to save in plans and IRAs in this way would be particularly detrimental as such savings typically represent a significant share of families' total financial assets.

Changes in retirement policy should build on existing system, not erode it.

Promoting retirement savings must remain one of our nation's top policy priorities. We urge this Committee to continue its leadership in pursuing policies to improve our Nation's retirement system. But any changes that are made should build upon our existing and successful tax incentive structure so that it works even more effectively to facilitate retirement plan coverage and savings by American families.

As this Committee considers these issues in the future, the Council urges you to focus on four objectives when crafting specific retirement policies. These objectives are all designed to advance the goal of retirement income adequacy for American workers.

Accumulating Retirement Savings: The first and most important policy objective in helping Americans generate adequate retirement income is to assist them in accumulating retirement savings during their working lives (which can then be used to generate income in retirement). Current retirement policies and vehicles, particularly employer-sponsored plans, successfully assist American families in accumulating retirement savings and generating retirement income.

Employer retirement plans make effective use of payroll deductions, provide fiduciary oversight and group pricing, typically involve substantial financial contributions by employers to employees' benefits, and facilitate access to investment education and advice. But in order that as many Americans as possible accumulate the retirement savings they need, policy improvements can be made in the following areas:

- *Coverage* -- expanding access to individual and workplace retirement savings plans;
- *Adequacy* -- helping individuals (supported by their employers) to save at higher levels;
- *Investing* -- encouraging the wise investment of retirement assets; and
- *Preservation* -- promoting portability of retirement savings and avoiding spending of savings prior to retirement (leakage).

Translating Retirement Savings into Retirement Income: A second important policy objective is helping individuals understand how their accumulated retirement savings from all sources (including the savings and benefits of one's spouse, where applicable) may be converted into streams of income in retirement.

Supporting an Evolving Approach to Retirement: A third important policy objective is to facilitate a flexible and evolving approach to retirement in which individuals who need or choose to do so may continue paid work into the traditional retirement years and may reduce their level of work over time as they transition into full retirement.

Supporting Employer Efforts to Assist Individuals: Employer plan sponsors play an important role in helping workers accumulate retirement savings, but their continued ability to play this role depends upon a supportive and stable policy environment.

Unfortunately, given the fiscal condition of the federal government, it will be difficult to remove revenue considerations from policy debates, even in the retirement area. Some good proposals will likely have to be delayed at this time because they are simply too costly and the required federal resources are simply not available.

There are a number of positive proposals that have been suggested by Members of this Committee that would help move us closer to better meeting those objectives with only modest short-term cost to the Federal government. For example, tax reform efforts in the retirement area should focus on simplification and reducing the administrative burden on plan sponsors. For example, nondiscrimination rules could be simplified by creating simple easy to apply safe harbors and making sure they do not discourage inclusion of part-time and short-service employees. The number of required notices should be reduced and streamlined and rules should be updated to better accommodate electronic delivery. We urge you to consider those and similar proposals as you continue your review of tax reform options.