



AMERICAN BENEFITS

COUNCIL

BIPARTISAN POLICY CENTER
What's Working and What's Not?

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What's Working and What's Not?

How the System Looks Now

- **The Retirement system is a “pyramid” consisting of**
 - A “base” of Social Security
 - Home ownership,
 - Employer-based retirement plans (Defined Contribution and Defined Benefit)
 - Other personal savings and assets
- **The importance of each resource varies from household to household**
 - Those with lower lifetime earnings rely heavily on Social Security benefits
 - Vast majority of the population supplement Social Security with other savings and assets including employer-based plans
- **The system is not “perfect” but changes should start with premise of “doing no harm”**

What's Working and What's Not?

The layers of the pyramid need each other for support

- ◉ Poverty rates have dropped since 1975
 - Social Security benefits have grown more generous over time, replacing 70% of lifetime earnings for lowest income quintile
 - ◉ The stability of Social Security, Medicare and other public programs is critical to minimizing volatility, disruption in benefits and avoiding large shifts of costs
 - Homeownership rises with age, mortgage burden falls with age
 - More retirees receive income from employer-based retirement plans and the amount of income they receive has grown since 1975
 - Retirees receive more benefits from employer-sponsored retirement plans and IRAs than from Social Security

What's Working and What's Not?

Workplace retirement plans successfully assist tens of millions of ordinary American families in accumulating savings for retirement

- Retirement plans are covering more workers, increasing participation and total retirement savings
 - Among full-time, full-year workers, almost 80 percent have access to plans and more than 80 percent participate (*Our Strong Retirement System: An American Success Story, p. 8*)
 - 89 percent of workers in large firms have access to a plan; in very small firms coverage tends to be thinner (*Our Strong Retirement System: An American Success Story, p. 8*)
 - Part-time and seasonal workers are least likely to participate in a plan even if they are covered by a plan (*Our Strong Retirement System: An American Success Story, p. 8*)

What's Working and What's Not?

Workplace retirement plans successfully assist tens of millions of ordinary American families in accumulating savings for retirement

- ◉ Assets saved for retirement have grown significantly faster than inflation since 1975 (the year after ERISA was enacted) with \$23 trillion earmarked for retirement (*Investment Company Institute, 2014 Investment Company Fact Book, Chapter 7, p. 4*)
- ◉ Near retirees (60-64) have higher account balances than the average cited for the whole participant population and those account balances will grow as more of the working population spends more of their careers participating in employer-sponsored plans

What is Working and What is Not?

Who Really Benefits from Employer-sponsored retirement plans?

- ◉ **Workers of all income levels receive tax benefits from workplace retirement plans thanks to broad nondiscrimination rules and minimum participation standards that govern plans**
 - Rules promote benefit fairness without discouraging small plan sponsorship where coverage is weakest
 - Progressive tax system supports tax incentives for lowest paid workers
 - Annual amount that can be saved is limited
- ◉ **Over 70 percent of workers earning \$30,000 to \$50,000 participate in workplace plans** (*Employee Benefit Research Institute (2010) estimate using 2008 Panel of SIPP (covered by an Employer Plan) and EBRI estimate (not covered by a plan-IRA only).*)

What's Working and What's Not?

Why Americans Save Through Workplace Retirement Plans

- **Employer-sponsored plans have valuable features:**
 - Culture of savings that is routine and consistent
 - Increased use of automatic enrollment and automatic escalation making it easier to save for retirement
 - Benchmarks that ensure people can retire
 - Employer contributions
 - Cost efficiencies and access to investments
 - Protections through trust structure
- **Changing the rules mid-game could have unintended negative consequences for all stakeholders**
 - Sensitivity to loss of stability and trust is important as well as loss of employer and fellow employee influence

What's Working and What's Not?

- ◉ **What Encourages Plan Sponsorship?**
 - Tax incentives are the foundation of voluntary employer-sponsored plans
 - Bipartisan tax policy allows employers to make commitment to design and funding of benefits
 - Small employers need additional support
 - Flexibility will continue to be a key to success
 - Employer-sponsored plans help employers employ and retain talented workers
 - Employees like employer-sponsored retirement plans

What's Working and What's Not?

Contributions to Retirement Plans Are Tax-Deferred, *Not Tax Free*

- ◉ Unlike deductions for mortgage interest, charitable contributions, state and local taxes, which are permanent deductions, tax incentives for pre-tax retirement savings are a deferral of tax
- ◉ Any tax deferred for today's contribution will be taxable income in retirement at ordinary income tax rates
- ◉ When tax is paid on distributions, the amount of tax is increased by the earnings on the investment, any employer match, non-elective contribution and profit-sharing contribution, if any
- ◉ Deferral also removes the bias against saving that is inherent in the tax code
- ◉ Workplace retirement plans provide a powerful source of income to American retirees, and a low

What's Working and What's Not?

**Tax-deferral increases savings;
savings compound over time**

- ◉ **The value of a tax deferral to an employee is the value of the taxes they would have paid except for the deferral over what taxes they pay when the money is distributed**
 - Good for the employee because it costs them less upfront to save and allows them to save more; ensuring a better retirement outcome

What's Working and What's Not?

The Workplace of the Future

- ◉ **Continuing evolution in economy, technology and public opinion**
 - Globalization is a driving force behind rapid change; competitiveness and integration of benefits for worldwide workforce
- ◉ **Emphasis will be on giving employees the tools they need for successful retirement**
 - Increasing health care costs will necessitate greater integration of health and retirement policy
 - Longevity growth will spur demand for effective decumulation options
- ◉ **Individuals, employers and the government all continue to have critical roles to play in sustaining the pyramid**

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