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Build Wealth & Reward Savings
Expand the Saver's Credit (H.R. 1961)

The current structure of retirement incentives does little to help those who have the fewest resources. The vast majority of the nation's $367 billion in assets incentives helps households earning more than $80,000 a year. While taxpayers making less than $48,000 (60% of Americans) share a little less than 3% of these benefits, the top 1% of households, whose average income exceeds $1.25 million, receive more than 45% of the subsidies.

Only fifty-two percent of households now own a retirement savings plan. Low-income workers are much less likely to save for retirement than their higher-income counterparts. The majority of low-income workers—more than 92%—are not participating in a 401(k) type plan because many of them are not offered a retirement plan by their employer. Only 37% of those earning under $30,000 annually have access to a retirement account at work. Additionally, 50.6% of those in the lowest income quintile who were eligible to save for retirement through an employer-sponsored plan declined to participate. 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. Of households in the lowest quintile, only 10% even have retirement accounts. Only 35% of households in the second-lowest quintile have retirement accounts. Thus, more than one in five households is asset poor.

The Saver's Credit was designed to provide a saving incentive for low- and moderate-income households. However, its final structure has led to its complete underutilization. More than 50 million households are eligible for the Saver's Credit, yet only 5.9 million individual income tax returns claimed the credit. This underutilization is due to the complexity of the credit and its inability to reach the vast majority of low-income households. Saver's Credit claims were $997 million in 2007. In 2006, the most recent year for which complete figures are available, the average savings for those filing jointly averaged $213.

Although Automatic Enrollment, 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 ensure income adequacy in retirement. For fully one in every five Americans aged 65 and older, Social Security is the sole source of income. And for more than 30 percent of seniors, Social Security represents more than 90 percent of retirement income. These trends coupled with a historically low national personal savings rate demands a response: A stronger Saver's Credit will assist workers build their savings and ensure adequate retirement and financial security.

Policy Details:

The Savings for American Families' Future Act of 2009 (H.R. 1961) makes critical improvements to the Saver's Credit by:

- Expanding the credit to additional middle-income working families by raising the income eligibility for families from $55,500 in FY09 to $65,000;
- Matching 50% of the first $1,000 of savings for families earning less than $65,000;
- Automatically depositing matching funds into designated personal retirement accounts by using account information listed on IRS tax filings through IRS Form 8888;
- Indexing contribution limits for inflation; and
- Making the credit refundable.

Presidential Support:

President Obama included an expansion of the Saver's Credit in his campaign platform, his FY2010 budget request and his plan for regulatory reform. The President promised to ensure that savings incentives are fair to all workers by creating a generous savings match for low- and middle-income Americans.

Estimates suggest his proposed expansion of the Saver's Credit, and broader retirement security plan, will stimulate tens of millions of new Americans to invest for retirement. More than 80 percent of the savings incentives will go to new savers, and 75 percent of people eligible for the incentives who are expected to participate in the new program do not currently save. The Brookings Institution's Retirement Security Project projects at least $44 billion in new savings due to a Saver's Credit expansion.

Recommended Action:

- Cosponsor H.R. 1961, The Savings for American Families' Future Act of 2009. This bill was introduced by Congressman Earl Pomeroy (D-ND).
- Add matches for 529 Accounts, Coverdells, Individual Development Accounts and Savings Bonds.
- Align withdrawal rules for homeownership and college education uses so that the IRA rules apply to 401(k) and other types of employer plans.
- Improve rules related to loans so that employees can repay loans after separating from an employer.
- The $10,000 lifetime limit for IRA homeownership withdrawals should be doubled.

Legislative Language:

See The Savings for American Families' Future Act of 2009 (H.R. 1961).

Resource Information:

http://www.whitehouse.gov/the_press_office/Weekly-Address-President-Obama-Announces-New-Initiatives-for-Retirement-Savings/

http://www.irs.gov/newsroom/article/0,,id=175591,00.html

http://www.cfed.org/go/advocacy

http://www.cfed.org/roi/index.html

http://www.retirementsecurityproject.org/

http://www.retirementmadesimpler.org

http://www.federalreserve.gov/Pubs/feds/2009/200919/200919pap.pdf

http://www.federalreserve.gov/pubs/bulletin/2006/financesurvey.pdf

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