

## PRINCIPLES FOR REFORM: RETIREMENT SAVINGS TAX EXPENDITURES

### About the Tax Alliance for Economic Mobility

The Tax Alliance for Economic Mobility, co-led by CFED and PolicyLink, convenes racial justice advocates, asset-building advocates, tax reform experts, and researchers to identify near- and longer-term policy priorities to expand savings and investment opportunities for lower-income households through reform of the U.S. tax code. The Alliance includes a coalition of national organizations that have agreed on shared principles and are working to educate and engage their networks about why equitable, inclusive, and progressive tax reform is crucial to building the long-term security of families, communities, and the national economy.

The Tax Alliance convenes a working group that focuses on the role that retirement savings plays in promoting family financial security and intergenerational wealth in addition to the financial cushion it provides for retired adults. We believe that all Americans deserve to retire with dignity, and recognize the growing need for families to build retirement savings alongside their Social Security benefits in order to have economic wellbeing in retirement. Therefore, we have developed a set of principles for reform in order to promote policies that support retirement security for low income people and people of color.

The principles outlined in this document were developed by the Retirement Security Working Group and may not reflect the views of individual members of the Tax Alliance for Economic Mobility.

### Retirement Security and the Racial Wealth Gap

It's becoming increasingly clear that many older Americans are facing serious financial insecurity. Our nation's population is aging while wages have stagnated and traditional pensions have nearly gone extinct – leaving more retirees dependent on Social Security for the majority of their income in retirement. For low income communities and communities of color, financial insecurity in retirement is exacerbated by lower earnings over the course of their work history, and less access to employer sponsored retirement benefits.

According to the National Institute for Retirement Security, workers of color are less likely to work for an employer that offers a retirement benefit program.<sup>i</sup> Sixty-two percent of white workers have employers that offer a retirement benefit plan compared to 54 percent of black and Asian workers, and only 38 percent of Latino workers.<sup>ii</sup> Overall, people of color are less likely to own retirement savings accounts. Sixty-two percent

### Reform Principles Snapshot

1. Expand access to workplace retirement accounts among low- and moderate-income Americans.
2. Help low- and moderate-income savers build their account balances by encouraging and/or matching individual contributions.
3. Reform existing retirement savings tax subsidies to ensure that lower-income workers receive their fair share of support.

of African Americans and 69 percent of Latinos do not have any assets in a retirement savings account. This is the case for only 37 percent of white workers.<sup>iii</sup> Economic Policy Institute estimates show that in 2013, the median retirement savings for white households stood at \$73,000, while African American and Latino households had a median retirement savings of \$22,000.<sup>iv</sup> The benefits to these accounts extend beyond the primary use of retirement income, providing a cushion for emergencies that increases overall economic security. The disparity in both prevalence and account balance across racial demographics underscores the ways in which our current retirement savings structure exacerbates the racial wealth gap and provides disproportionate benefits to higher income families.

### **Retirement Working Group Statement of Principles**

The national discussion about retirement security often centers on Social Security. However, Social Security benefits are simply not enough when it comes to low-income households and households of color. While Social Security is the largest federal expenditure, tax-subsidized accounts such as pensions, 401Ks, and IRAs aim to support retirement security as well. These accounts constitute some of the largest tax expenditures going to households, yet many low-income people and people of color do not benefit. In 2015, the federal government spent \$172 billion to support savings for retirement through the tax code.<sup>v</sup> Of that, only about 2 percent went to households in the bottom 40 percent of the income distribution.<sup>vi</sup>

Given the current challenges in the distributional effects in the system, the members of the Tax Alliance for Economic Mobility believe:

- All Americans deserve a dignified and financially secure retirement.
- Social Security, the indispensable bedrock of the U.S. retirement system, helps achieve this goal, but benefits are often too low to maintain an adequate standard of living for retirees. Efforts to bolster the program and increase benefits, especially for lower-income Americans, should be encouraged.
- To supplement what Social Security provides and what Americans need for a financially secure retirement, all Americans should be encouraged to save money during their working years, in order to reduce elderly poverty and enhance overall retirement security in the U.S.
- The current retirement system contributes to wealth inequality and the widening racial wealth gap in the U.S. It is in need of reform in order to promote equity and access to financial security for all.
- Policy should promote retirement savings options that are affordable, accessible, and transparent in order to increase opportunities for lower income households and households of color to save.

As such, the Tax Alliance for Economic Mobility will support state or federal policies that work to make tax subsidies more equitable. Specifically, we support policies that:

#### **1) Expand access to workplace retirement accounts among low- and moderate-income Americans.**

- *To be most effective, enrollment in the accounts should be automatic (with an opt-out option), contributions should be transferred directly from workers' paychecks, and administrative fees should be kept as low as possible. Treasury should continue providing access to safe, affordable accounts like the MyRA program.*

**2) Help low- and moderate-income savers build their account balances by encouraging and/or matching individual contributions.**

- *This could take the form of a refundable tax credit to individual savers, a direct government match, or a tax credit to employers who provide a match. Options such as these would help equalize the incentive low- and moderate-income families have to save, which is currently much lower than that enjoyed by higher-income individuals.*

**3) Reform existing tax subsidies to ensure all Americans have support to save for their retirement.**

- *To ensure all workers can build savings for a secure retirement, policymakers should reform existing tax subsidies to ensure that low- and moderate-income workers receive their fair share of support.*

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<sup>i</sup> Nari Rhee, *Race and Retirement Insecurity in the United States* (Washington, DC: National Institute on Retirement Security, 2013).

<sup>ii</sup> Ibid, 3.

<sup>iii</sup> Ibid, 8.

<sup>iv</sup> Ibid, 10-12.

<sup>v</sup> Ezra Levin, "Congress Keeps Spending to Make Wealth Inequality Worse," *CFED*, May 6, 2016, <http://cfed.org/blog/inclusiveeconomy/congress-keeps-spending-more-to-make-wealth-inequality-worse/>.

<sup>vi</sup> "Tax Benefit of Certain Retirement Savings Incentives" *Tax Policy Center*, July 2015, <http://www.taxpolicycenter.org/model-estimates/tax-benefit-certain-retirement-savings-incentives-cash-flow-approach/tax-benefit>.