THE RETIREMENT SAVINGS CONTRIBUTIONS CREDIT (SAVER'S CREDIT)

What is the Saver's Credit?

The Saver's Credit, or Retirement Savings Contributions Credit, is a tax credit that helps low- and moderate-income (LMI) workers save for retirement by incentivizing them to contribute to a retirement plan. To qualify for the credit in 2019, a single filer must make less than $32,000 and married filers (filing jointly) less than $64,000. Head of Household filers must make less than $48,000.[1] The amount of the credit is dependent on a taxpayer's adjusted gross income and can total 50%, 20% or 10% of that individual's contributions to his or her employer-sponsored retirement plan or Individual Retirement Account (IRA).

The maximum credit a single filer can claim is $1,000, while the maximum credit for married filers (filing jointly) is $2,000. The Saver's Credit is non-refundable, meaning that the credit amount a taxpayer receives cannot exceed his federal income tax liability. In other words, if the credit amount is larger than the amount the taxpayer owes, the IRS will not refund the balance.

Saver's Credit Snapshot

1. The Saver's Credit is a tax credit that encourages low- and moderate-income workers to contribute to a retirement plan.
2. At a time when too few in this country, especially those with lower incomes, are saving for retirement, the Saver's Credit could be a powerful tool.
3. Due to issues like lack of access to workplace retirement savings, low- to moderate-income workers do not receive the full benefit from the Saver's Credit.
4. Lawmakers should make the Saver's Credit refundable, restructure it to further incentivize saving and reduce filing complexities.

Helping Workers Save for Retirement

The intent of the Saver's Credit is to help low- and moderate-income workers save more for retirement and build long-term financial security. This is especially important at a time when too few Americans are setting aside money for retirement. Studies have shown that of the workers eligible to participate in a 401(k) plan, one-fifth choose to not do so, often because they have to cover other expenses.[2] This is particularly true for lower-income individuals, who often have to prioritize short-term expenses and find it challenging to set aside money for the future.[3]

Unfortunately, many LMI workers are unable to take full advantage of the Saver's Credit for several reasons. Since it is non-refundable, LMI workers with little or no federal income tax liability are unable to receive the full benefit from the credit. For example, even though the maximum Saver's Credit is $1,000, the actual average credit claimed by taxpayers was just $177 in 2014.[4]

In addition, the lack of access to workplace retirement plans further limits workers' ability to claim the Saver's Credit. About one-third of the U.S. workforce does not have access to a retirement plan at work,[5] and while individuals can claim the credit through use of an IRA, workplace retirement plans remain the primary way people save for the long term.

The Saver's Credit and the 2017 Tax Law

While the Tax Cuts and Jobs Act of 2017 had no effect on the Saver's Credit, reform is needed to allow more low- and moderate-income workers to benefit from the credit. Namely, making the Saver's Credit fully refundable, restructuring it and reducing filing complexities would strengthen the credit and expand its reach.

Ways to Improve the Saver's Credit

Currently, low- and moderate-income families who owe little or no federal income taxes receive little benefit from the Saver's Credit. Making the credit fully refundable would ensure that more LMI workers receive this tax incentive to support retirement savings. In addition, the Saver's Credit should be restructured to provide more incentives for LMI workers to save for retirement. One way to do this would be to provide the credit as a savings match directly into filers' retirement savings accounts, which would build up their savings much faster.[6]

The Saver's Credit is also underutilized because it is complex for taxpayers to file for it. In 2014, for example, only 5.3% of eligible taxpayers actually filed for the credit.[7] To alleviate this problem, lawmakers should emulate the filing process of less complicated tax credits designed to benefit LMI workers, such as the Earned Income Tax Credit.[8]

Finally, policymakers at the state level should expand access to the Saver's Credit. They can do this through the use of state-sponsored retirement plans, as well as through tax-time outreach efforts to raise awareness about the credit.

***Resources*:**

- "Principles for Reform: Tax Credits for Low-Income Workers," Tax Alliance for Economic Mobility, January 2019, https://www.taxallianceforeconomicmobility.org/wp-content/uploads/2019/01/Tax_Alliance_Low-Income-Worker-Credit-Principles_2019-FINAL.pdf

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[1] Internal Revenue Service, "Retirement Savings Contributions Credit (Saver's Credit)," (Washington, DC: IRS, 2019).
[2] Joanna Ain, J. Mark Iwry and David Newville, "Saving for Now & Saving for Later: Rainy Day Savings Accounts to Boost Low-Wage Workers' Financial Security," *Prosperity Now*, June 2018, 8, https://prosperitynow.org/files/PDFs/Saving-for-Now-Saving-for-Later-Rainy-Day-Savings-Accounts-to-Boost-Low-Wage-Workers%E2%80%99-Financial-Security.pdf.
[3] Ibid, 8-9.
[4] Jennifer Erin Brown and David C. John, *Issue Brief: Improving the Saver's Credit for Low-and Moderate-Income Workers,* (Washington, DC: National Institute on Retirement Security, 2017), 5.
[5] The Pew Charitable Trusts, "*Retirement Plan Access and Participation Across Generations: How younger workers in the private sector differ from older colleagues*," (Washington, DC: The Pew Charitable Trusts, 2017).
[6] Jennifer Erin Brown and David C. John, *Issue Brief: Improving the Saver's Credit for Low-and Moderate-Income Workers,* (Washington, DC: National Institute on Retirement Security, 2017), 7.
[7] Ibid, 9.
[8] Ibid, 9.