An Evaluation of Retirement Savings Vehicles: Which Policies Do the Most Good for the Most Americans?

This fact sheet evaluates two sets of proposals to strengthen retirement security. The first, the SECURE Act, would increase access to pre-tax retirement savings options. The second set of proposals would expand Social Security benefits. For the reasons explained below, the former approach is meaningful for some Americans, and the latter approach will help families across the income spectrum.

The SECURE ACT: Greater Access to Retirement Savings

The Setting Every Community Up for Retirement Enhancement Act or SECURE Act, H.R. 1994, was introduced to help working people increase their retirement savings by providing greater access to pre-tax retirement options such as 401(k)s and IRAs. The SECURE Act would allow part-time workers to participate in 401(k) plans for the first time and raise the maximum age to begin mandatory distributions from 70 ½ to 72. The bill would also let graduate students count non-tuition fellowships and stipends as compensation for purposes of IRA contribution. Importantly, the SECURE Act would allow home care workers -- many of whom do not have access to pre-tax retirement vehicles due to the tax status of their income -- the opportunity to participate in defined contribution plans or an IRA. Expanding access to retirement options and security for new populations who have not been able to participate in retirement programs is a laudable goal. Additionally, the bill makes it easier to transfer savings between plans and reduces the pay-out period for non-spouse beneficiaries to 10 years.

The SECURE Act also increases access to retirement savings by facilitating employer participation in pre-tax retirement vehicles. The bill would expand and encourage participation by small businesses by offering a tax credit of $500 dollars per enrolled employee (up to a maximum of $5000). It also allows businesses to join together in multi-employer plans (MEPs) to make defined contribution plans more affordable, particularly for small businesses. It would increase the safe-harbor cap on contributions from 10 to 15 percent and reduce administrative costs.

As Ways and Means Committee Chairman Richard Neal (MA-04) said when the bill passed committee, “Americans currently face a retirement income crisis, with too many people in danger of not having enough savings to maintain their standard of living and avoid sliding into poverty.” Increasing access to pre-tax retirement plans is a good way for those with means to increase savings. At the same time, pursuing a broader set of policy proposals is necessary to ensure an effective path toward retirement security for all.

The Economic Policy Institute contributed data on retirement savings accounts to this document.

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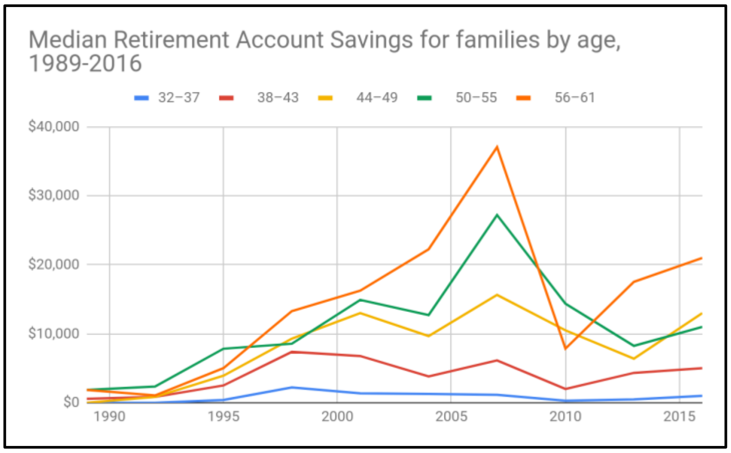
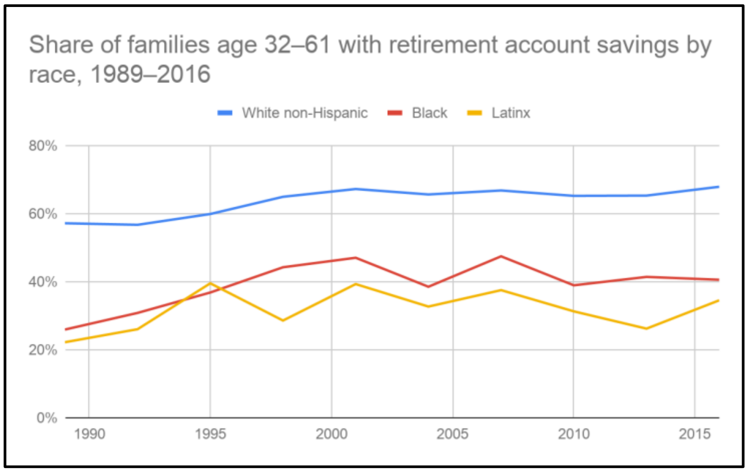
Pre-tax Retirement Plans: Risk and Regressivity



While 401(k)s and IRAs can be good vehicles for saving, retirement vehicles that are tied to the stock market carry inherent risks. Each time there is a fluctuation in the market, retirement assets are directly affected. In the aftermath of a recession, near-retirees could see their retirement savings take a significant hit. This was the case in the wake of the Great Recession. Through 2016, no age group had fully recovered the losses to their plans since the 2007 peak just before the recession.

As a policy tool, pre-tax retirement plans fail to provide a secure retirement for the widest swath of people as possible and do little to address inequality. Lower-income earners often cannot afford to participate in pre-tax retirement plans. When they do, their contributions are often a much smaller share of their income. As a result, higher-income earners make up the majority of plan participants and reap the majority of the benefits as well. One estimate suggests that 85 percent of IRA benefits accrue to the top 40 percent of US households.



Not only are retirement savings accounts distributionally regressive, they are also racially inequitable. The majority of black and Latinx households have no retirement account savings at all. Among those households that do have retirement savings, the median household retirement savings were $29,200 for black households and $23,000 for Latinx households, compared to $79,500 for white households.

For years, retirement income was thought of as a three-legged stool consisting of employee pensions, savings, and Social Security. This was apt when defined benefit pension plans were more common. But the number of people with these plans has fallen considerably covering, from 48 percent of working people in 1970 to only 20 percent of workers as of 2008. And as detailed here, pre-tax retirement savings plans are simply not an option for many working people. That leaves Social Security as the foundation of retirement for the majority of retirees.

Social Security As A Share of Retirement Income

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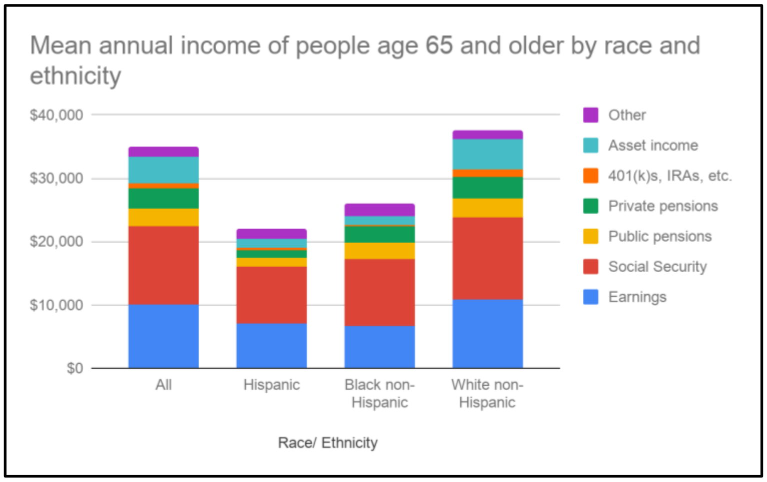
Social Security benefits are the most important source of retirement income for retirees. For over half of people 65 and older, Social Security makes up 50 percent of retirement income. And for about 1-in-4 people over age 65, Social Security makes up 90 percent of their retirement income.



Social Security Expansion
There are currently several bills that seek to increase Social Security benefits and long-term solvency.

The Social Security Expansion Act, H.R. 1170, sponsored by Rep. Peter Defazio (OR- 04); the Protecting and Preserving Social Security Act, H.R. 2302, sponsored by Rep. Ted Deutch (FL-22); the Fair COLA for Seniors Act, H.R. 1553, sponsored by Rep. Garamendi (CA-03); the Social Security 2100 Act, H.R. 860, by Rep. John Larson (CT-01), and the Protecting Our Widows and Widowers in Retirement (POWR) Act, H.R. 1540, sponsored by Linda Sanchez (CA-28), strengthen Social Security in a number of ways. The Defazio, Deutch, Garamendi, and Larson bills switch to the CPI-E for better and more accurate cost of living adjustment calculation. The DeFazio, Deutch and Larson bills all increase the amount of income subject to the Social Security payroll tax to extend solvency. The DeFazio and Larson bills also increase the minimum Social Security benefit 125 percent and tweak the benefit formula to increase monthly benefits. The Sanchez bill lets widows and surviving divorced spouses receive 100 percent of survivor benefits regardless of age during disability and increases the current survivor benefit.

While 401(K)s, IRAs and other pre-tax vehicles encourage saving and can help workers build a nest egg, they do little to address inequality and are inherently regressive. In contrast, boosting Social Security benefits clearly helps those who are most vulnerable live more comfortably in their retirement years. As the primary source of income in retirement for most Americans, expanding Social Security is an excellent path to greater retirement security for everyone.

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