AMERICAN RETIREMENT ASSOCIATION

Working for America's Retirement

SECURE 2.0

Closing the Retirement Savings Gap

Congress is poised to pass a comprehensive retirement policy bill this year – what has been nicknamed the SECURE 2.0 bill – as it builds on the positive retirement plan provisions contained in the original SECURE Act from 2019. During the ensuing two years, each of the four Congressional Committees with primary jurisdiction over retirement policy - the House Education and Labor Committee, the House Ways and Means Committee, the Senate Finance Committee and the Senate Health Education Labor and Pensions (HELP) Committee – have completed their work on their respective SECURE 2.0 legislative products. The House of Representatives took it a step further, combining their two Committee-passed bills and voting overwhelmingly to pass SECURE 2.0 through their full body. All told, 414 Members of the House of Representatives and 45 Senators of the 117th Congress are now on the record supporting the SECURE 2.0 bill.

The SECURE 2.0 bill contains two key provisions that will greatly increase the number of Americans saving for retirement and who have access to a retirement plan at work: the Saver's Match Program and the Starter K Program. The Saver's Match Program will increase retirement savings adequacy through a targeted tax incentive to low- to moderate-income earners who save for retirement.[1] The Starter K Program will close the retirement plan coverage gap, so more American workers gain access to a workplace-based retirement savings plan. The aggregate impact of these two policies is profound. Over ***108 million Americans*** will now be eligible for the Saver's Match – a new government matching contribution that is directly deposited into a retirement account. Over ***19 million new American workers*** would gain access to and have the ability to participate in workplace-based retirement system through the Starter K – a brand new super simple 401(k) plan - and the enhanced retirement plan startup tax credits for employers.[2]

1 Estimates prepared by Judy Xanthopoulos, PhD of Quantria, based on 2019 IRS SOI and U.S. Census Data. Estimates reflect a fully phased-in analysis of the Starter K and start-up tax credits for employer programs.

2 *Ibid.*

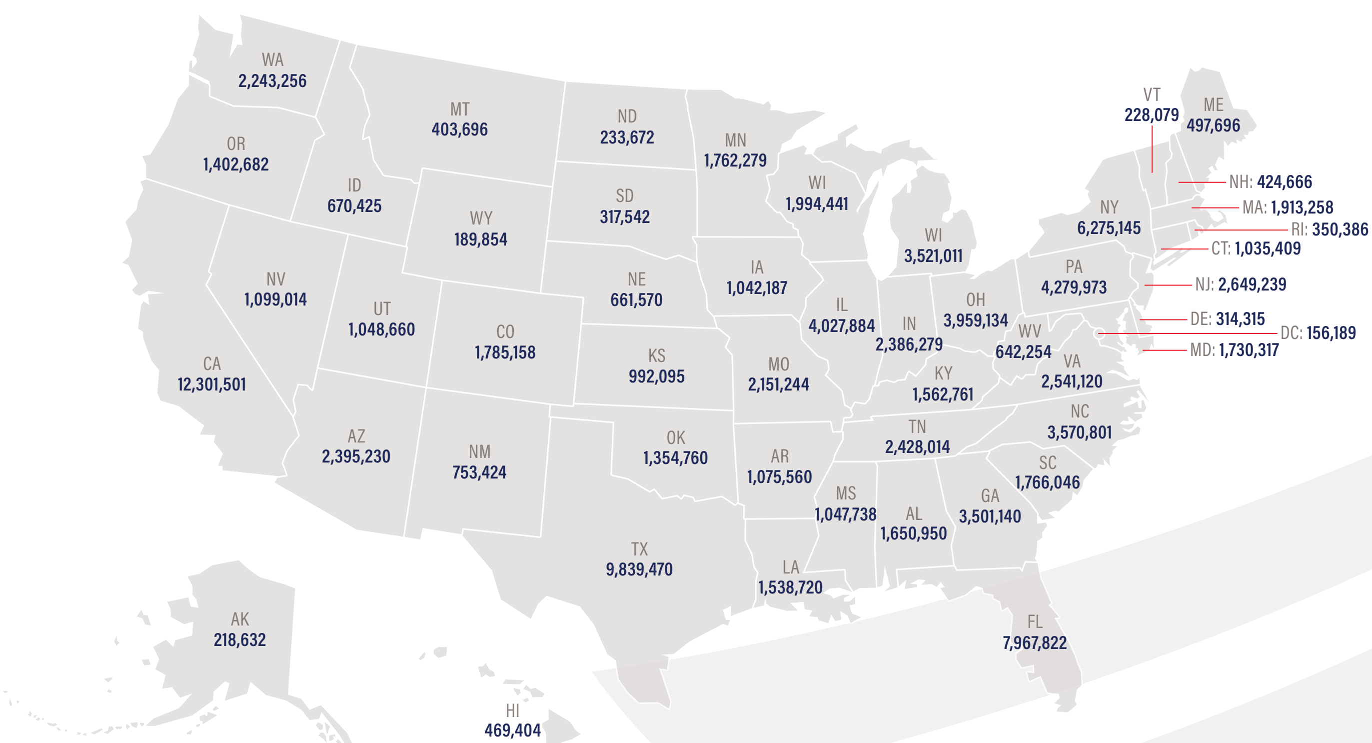
A NEW MATCHING CONTRIBUTION FOR SAVERS

Under current law, certain low-to-moderate income workers who contribute to an IRA, 401(k), 403(b), 457, or ABLE account can get a Saver's Credit – which is credit against federal income taxes owed. That can be either 10%, 20%, or 50% of the first $2,000 you contribute to retirement accounts. However, that current Saver's Credit is a "nonrefundable" credit, which means you only get it if you owe federal income taxes.

SECURE 2.0 replaces the existing Saver's Credit and its limits with a new Saver's Match for retirement savings contributions. Rather than a credit against taxes owed, this Saver's Match would be deposited directly into your retirement account. Better still, more savers would be eligible for this matching contribution thanks to expanded income limits and you would receive it regardless of your federal income tax status. Under the new rules, eligible savers would get a 50% matching contribution on up to $2,000 in retirement savings annually. This match rate would phase out between $41,000 and $71,000 in the case of taxpayers filing a joint return ($20,500 to $35,500 for single taxpayers and married filing separate; $30,750 to $53,250 for head of household filers).

108 M
Americans

With the expanded income thresholds over ***108 million Americans*** would now be eligible for the new Saver's Match incentive for retirement savings.[3] This includes millions of gig workers in this country as well as government workers, like public school teachers, many of whom are not eligible for matching contributions. The enhanced Saver's Match would both encourage savings and help savers build wealth by providing a meaningful return on personal retirement contributions.



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3 *Ibid.*

WORKERS WHO WILL BE ELIGIBLE FOR THE SAVER'S MATCH

Alabama	1,650,950		Kentucky	1,562,761		North Dakota	233,672
Alaska	218,632		Louisiana	1,538,720		Ohio	3,959,134
Arizona	2,395,230		Maine	497,696		Oklahoma	1,354,760
Arkansas	1,075,560		Maryland	1,730,317		Oregon	1,402,682
California	12,301,501		Massachusetts	1,913,258		Pennsylvania	4,279,973
Colorado	1,785,158		Michigan	3,521,011		Rhode Island	350,386
Connecticut	1,035,409		Minnesota	1,762,279		South Carolina	1,766,046
Delaware	314,315		Mississippi	1,047,738		South Dakota	317,542
District of Columbia	156,189		Missouri	2,151,244		Tennessee	2,428,014
Florida	7,967,822		Montana	403,696		Texas	9,839,470
Georgia	3,501,140		Nebraska	661,570		Utah	1,048,660
Hawaii	469,404		Nevada	1,099,014		Vermont	228,079
Idaho	670,425		New Hampshire	424,666		Virginia	2,541,120
Illinois	4,027,884		New Jersey	2,649,239		Washington	2,243,256
Indiana	2,386,279		New Mexico	753,424		West Virginia	642,254
Iowa	1,042,187		New York	6,275,145		Wisconsin	1,994,441
Kansas	992,095		North Carolina	3,570,801		Wyoming	189,854

STARTER K

Data shows that Americans are 12 times more likely to save for retirement if they have access to a retirement savings plan at work.[4] Unfortunately, far too many Americans still do not have that access – and are missing out on the opportunity to save for retirement – and this "opportunity gap" is particularly pronounced in the Black and Hispanic communities. Expanding retirement plan coverage with automatic enrollment is the key to addressing these racial inequities in retirement savings. Data also shows that when low- to moderate-income workers are automatically enrolled in a workplace retirement plan there is no racial disparity in retirement savings participation, with about 80 percent of Black, Hispanic, and White Americans all participating in these programs.[5]

Nearly all large employers provide access to these programs – but small businesses often struggle to find the time or money to set up and run these programs. But a new type of plan – the "Starter K" – provides a solution – and in the process creates significant opportunities for the workforce that currently lacks access to workplace-based retirement savings.

The Starter K plan allows employees to save up to $6,000 per year (with a $1,000 catch-up contribution) in a tax-preferred retirement account – the same contribution limits as

4 IRS tabulations and Vanguard, *How America Saves*, 2018

5 401(k) Plans in Living Color, A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups, The Ariel/Aon Hewitt Study, 2012.

an IRA – but without the complexity, administrative burden, or expense of a traditional 401(k) plan. The Starter K plan does not require employer contributions or complicated testing. It only requires that workers be automatically enrolled in the plan at a minimum of 3% of pay and provides the ability for workers to opt-out. The Starter K plan with automatic enrollment becomes the perfect option for a small or start-up business that is not able to contribute to a retirement plan today but wants to give its valued workers an opportunity to save for their retirement.

19 M

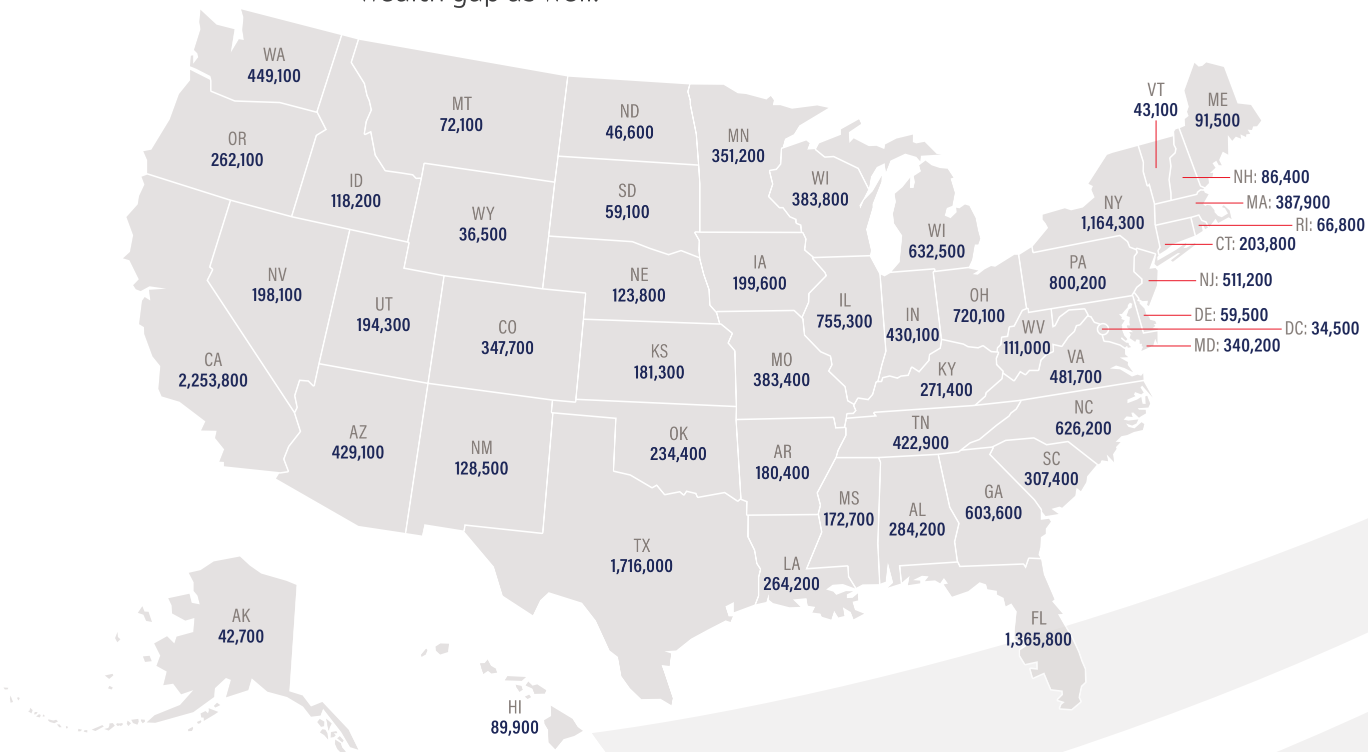
additional American workers

The potential impact of the Starter K plan will be enormous! Estimates of the effects of the Starter K plan – coupled with the expanded employer startup tax credit currently included in the SECURE 2.0 bill – enables ***19 million additional American workers*** to gain access to and participate in the workplace-based retirement system.[6] Moreover, these proposed changes would have a significant impact on moderate income workers, particularly workers of color. Estimates indicate that ***Black and Hispanic American workers would see a 22 percent increase*** in access to workplace retirement plans with the help of these provisions.[7]

22%

increase in Black and Hispanic access to a retirement plan

The Starter K plan does more than just make it easier for small business owners to provide a meaningful benefit to their workers; coupled with automatic enrollment, it provides a significant step toward closing not only the nation's retirement savings opportunity gap, but the racial wealth gap as well.



6 Estimates prepared by Judy Xanthopoulos, PhD of Quantria, based on 2019 IRS SOI and U.S. Census Current Population Data. Estimates reflect a fully phased-in analysis of the Starter K and start-up tax credits for employer programs.

7 *Ibid.*

WORKERS WHO WILL GAIN ACCESS TO RETIREMENT SAVINGS THROUGH THE STARTER K

Alabama	284,200	Kentucky	271,400	North Dakota	46,600
Alaska	42,700	Louisiana	264,200	Ohio	720,100
Arizona	429,100	Maine	91,500	Oklahoma	234,400
Arkansas	180,400	Maryland	340,200	Oregon	262,100
California	2,253,800	Massachusetts	387,900	Pennsylvania	800,200
Colorado	347,700	Michigan	632,500	Rhode Island	66,800
Connecticut	203,800	Minnesota	351,200	South Carolina	307,400
Delaware	59,500	Mississippi	172,700	South Dakota	59,100
District of Columbia	34,500	Missouri	383,400	Tennessee	422,900
Florida	1,365,800	Montana	72,100	Texas	1,716,000
Georgia	603,600	Nebraska	123,800	Utah	194,300
Hawaii	89,900	Nevada	198,100	Vermont	43,100
Idaho	118,200	New Hampshire	86,400	Virginia	481,700
Illinois	755,300	New Jersey	511,200	Washington	449,100
Indiana	430,100	New Mexico	128,500	West Virginia	111,000
Iowa	199,600	New York	1,164,300	Wisconsin	383,800
Kansas	181,300	North Carolina	626,200	Wyoming	36,500

EXPLANATION OF THE DATA ANALYSIS

Starter K Participation: Estimates provide the estimated access and potential participation in a **fully phased-in** Starter K program. The numbers represent individuals (not tax returns or households). Weights supporting the distribution by income class and state are from the IRS SOI Individual Income tax data. The state data relies on 2019 return data. Further, the fully phased-in estimates assume that (1) employers would have access to the expanded start-up tax credits and (2) many employers participating in state auto-IRA plans would opt to offer the Starter K plans.

Saver's Credit Eligibility: Weights supporting the distribution by income class and state are from the IRS SOI Individual Income tax data. The state data relies on 2019 return data, by filing status for wage and salary earners. The numbers represent individuals (not tax returns or households). The Saver's Credit eligibility includes he individuals already eligible under current law.