

February 7, 2024

The Honorable Richard Neal
Ranking Member
Ways & Means Committee
United State House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Re: Letter of support for the Automatic IRA Act of 2024

Dear Ranking Member Neal:

On behalf of the over 35,000 members of the American Retirement Association (ARA), we hereby express our support and endorse the Automatic IRA Act of 2024, which will help bridge the coverage gap and ensure that millions of working Americans have access to a secure retirement.

The ARA is the coordinating entity for its five underlying affiliate organizations representing the full spectrum of America's private retirement plan system – the American Society of Enrolled Actuaries (ASEA), the American Society of Pension Professionals and Actuaries (ASPPA), the National Association of Plan Advisors (NAPA), the National Tax-Deferred Savings Association (NTSA), and the Plan Sponsor Council of America (PSCA). The ARA's membership supports 95 percent of all defined contribution plans, such as 401(k) plans, in the United States. The ARA and its affiliate organizations are diverse in the roles they play, but are united in their dedication to the success of America's retirement plan system.

A Federal Auto-IRA Program is Good for Small Businesses

This Auto-IRA proposal is specifically designed to be simple and low-cost, with minimal paperwork and administrative burden for the employer. In fact, existing tax credits available to small businesses that startup a retirement plan that were expanded under SECURE 2.0 plus the new tax credit for implementing an Auto IRA product proposed in this legislation ensure that the cost to operate the plan are zero or minimal for the small business. Accordingly, small businesses, which traditionally have tighter margins and less administrative capacity, stand to benefit the most from this proposal.

Nearly all small businesses that do not have a retirement plan want to offer one for their employees. After conducting a national survey of small business owners, Pew Charitable Trusts found that 86% of small and mid-sized employers without plans – employers with between 5 and 250 employees – support the concept of a payroll deduction retirement plan with automatic enrollment.

The policy problem is not that there is a lack of retirement products available to small businesses. There are plenty of retirement plans available at a reasonable cost. The problem is that many small business owners are too busy running their own businesses to focus on offering a retirement plan to their employees, so some additional incentives would help nudge them in the right direction.

However, the ARA believes that any requirements placed on employers should be designed to minimize the burden on the employer while achieving the desired policy outcome of increasing the availability of workplace savings arrangements. Many of the provisions in SECURE 2.0, such as the Starter K,

expanded startup tax credits, and automatic enrollment tax credit, ensure that a small business can implement a retirement plan with minimal compliance burden at a low cost. Because of these provisions, the requirement to provide a retirement plan for most small businesses is now ripe for implementation.

A Federal Auto-IRA Program Will Help Address Racial Inequities in Retirement Saving

Racial financial inequality is a growing problem in the United States and is particularly evident in retirement savings. Retirement plans provide long term economic growth and build financial security for the middle class. The critical factor that determines whether moderate-income workers save for their retirement is whether they have access to a retirement savings plan at work. Data shows that more than 70 percent of workers earning \$30,000 to \$50,000 will save in a plan when given the opportunity at work, but fewer than 7 percent voluntarily save on their own through an IRA.¹ In other words, moderate-income workers are 12 times more likely to save for retirement if they have access to a retirement savings plan at work.

Historically, workers in minority and underserved communities have faced barriers to accessing retirement plans due to limited access to workplace retirement plans, like 401(k) plans. This retirement plan coverage gap, and the corresponding lack of retirement savings, is particularly pronounced in Black and Hispanic communities. According to a recent research report, 52 percent of Black Americans and 68 percent of Hispanic Americans do not currently have access to a workplace retirement plan.²

Expanding retirement plan coverage through this legislation is the key to addressing racial inequities in retirement savings. Data shows that when moderate income workers are automatically enrolled in a workplace retirement plan there is no racial disparity in retirement savings participation with Black, Hispanic, and White Americans all participating at an 80 percent rate.³ The Automatic IRA Act will go a long way to level the playing field in retirement savings opportunities.

Conclusion

The ARA believes that the Automatic IRA Act strikes the appropriate balance to close the retirement plan coverage gap in the private sector workforce to the greatest extent possible while imposing the minimum possible burden on small- to medium-sized businesses. Further, the legislation protects the state-facilitated automatic-IRA programs that have been successful in closing the coverage gap. The ARA strongly endorses this legislation and urges Congress to promptly enact it into law.

Sincerely,



Brian H. Graff, Esq. APM
Executive Director/CEO American Retirement Association

¹IRS tabulations and Vanguard, *How America Saves*, 2018

²Richard W. Johnson, Urban Institute Fellow, *How Can Policymakers Close the Racial Gap in Retirement Security?* October 2020, available at: https://www.urban.org/research/publication/how-can-policymakers-close-racial-gap-retirement-security/view/full_report

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