AMERICAN RETIREMENT ASSOCIATION

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Working for America's Retirement

Automatic IRA Act Will Close America's Retirement Plan Coverage Gap

The Automatic IRA Act of 2024 (H.R. 7293) expands the retirement coverage of employees who currently lack access to a workplace-based retirement plan. The American Retirement Association (ARA) strongly supports the legislation, which requires employers with more than 10 employees that do not sponsor a retirement plan to automatically enroll their employees in an automatic IRA or similar plan, such as a 401(k).

Helps Workers Save for Retirement: Moderate-income workers are 15 times more likely to save for retirement if they have access to a retirement savings plan at work rather than saving on their own. 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.[1]

No Cost to Small Business: The bill includes a tax credit of $500 per year for three years for employers of up to 100 employees that offer an automatic IRA product, including those facilitated via a state program. This credit complements the SECURE 2.0 Act increased startup credit for certain small employers, which covers 100% of administrative expenses up to $5,000 per year for operating a 401(k) plan.[2] Whether the small business provides an automatic IRA or a 401(k), the cost to operate should be zero or minimal.

Public-Private Partnership: H.R. 7293 builds upon the existing public-private partnership with government incentivizing retirement plan implementation and individual savings while keeping the relationship between the employer and employee. Further, the legislation maintains the three-legged stool of employer-based retirement plans, Social Security, and personal savings.

State-Based Auto-IRA Programs are Successful: 20 states have enacted bills similar to the Automatic IRA Act. Research clearly shows the positive impact state Auto-IRA programs have in helping underserved and moderate-income workers save for their retirement. An analysis of OregonSaves, the first state law in the country to require their state businesses to offer a retirement plan for their workers, shows a statistically significant increase in household retirement assets and no negative impact on other types of savings, with larger effects concentrated among older, female, single, and childless workers, and in lower-income households.[3] The Automatic IRA Act builds upon successful state-run retirement programs and will close the retirement plan coverage gap across the nation.

The legislation strikes the right balance between closing the retirement plan coverage gap and imposing the minimum possible burden on small to medium sized businesses. Further, the legislation protects the state-facilitated automatic-IRA programs that continue to be successful in closing the coverage gap.

The American Retirement Association (ARA) is a non-profit education and advocacy organization for retirement plan and benefits professionals. Our mission is to advocate for policies that give every working American the ability to have a comfortable retirement.

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1 401(k) Plans in Living Color, A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups, The Ariel/Aon Hewitt Study, 2012.
2 Section 102 of the SECURE 2.0 Act of 2022 (Division T of the Consolidated Appropriations Act 2022) increased the startup credit for certain small employers and included an increase in the credit for making employer contributions.
3 Dao, Ngoc. Does a *Requirement to Offer Retirement Plans Help Low-Income Workers Save for Retirement? Early Evidence from the OregonSaves Program* (August 2023) available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4561558