July 11, 2022

<u>A 25-year fleecing?</u>

Bipartisanship can be golden but grossly unfair. Congress should the slam brakes on 401(k)/IRA legislation, rethink retirement financing policy

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Following a well-worn path laid down by Wall Street lobbyists and their allies on Capitol Hill, bills now gliding through Congress would further increase the ability of the country's highest earners to invest yet more in tax-favored retirement accounts, and for longer periods. As customary -- contrary to claims by powerful proponents -- the bills would do little to help lower-and middle-paid workers save for retirement.

Bipartisanship is sorely needed to resolve many critical issues, but this a case where it throws off odors of something not quite right. In fact, one can argue that U.S. retirement policy over the past quarter century might well be a textbook example of a rigged system in which the wealthiest and most powerful have used political leverage to corral trillions of dollars and exacerbated wealth inequality. As shown in an analysis I did for the Society of Actuaries in 2016, the distribution of tax subsidies in the current U.S. retirement savings system is not only grossly unfair. It also plays a significant role in widening the wealth gap, while providing no benefit, and potential harm, to a major portion of the workforce.

In a recent paper – 'The Great American Retirement Fraud' -- University of Virginia law professor Michael Doran lays out a similar case in careful detail demonstrating both analytic skill and an insider's perspective of having worked for both the employee benefit industry and U.S. Treasury: "The retirement-reform project of the past twenty-five years has been and continues to be a policy scam." he argues.

"Neither the aim nor the effect of the legislative changes has been to increase retirement security for the great majority of American workers. Instead, the heart and soul of the retirement-reform project has been to increase tax subsidies for the affluent – managers, professionals, entrepreneurs, financiers, and consultants – who have both the means and the disposition to save for retirement whether or not federal law provides retirement-savings incentives. Since 1996, Congress has steadily increased the amounts that higher-income earners may contribute to tax-exempt retirement plans and IRAs, and it has steadily delayed the time when higher-income earners must remove their savings from those tax-exempt accounts – all at great cost to the federal treasury."

Doran goes on to say: "Clever lobbyists and pliable lawmakers sell the legislative packages as promoting general retirement security, but only the affluent are in a position to make use of the new rules. And only the affluent have made use of the new rules."

Facts back up his assertions. The average value of IRA and 401(k) accounts more than doubled between 1995 and 2019, but the increases are heavily skewed toward high earners. According to Federal Reserve Bank research, the median value of accounts for the top tenth of families almost quadrupled, rising to $260,000 over that time. Balances for families in the middle quintile were virtually unchanged at $17,000 (adjusted for inflation). Families in the bottom fifth saw account values **drop** from $16,690 to $13,000.

Fed data greatly understates low-wage households' lack of retirement savings because it omits millions who have no account. Only 11 percent of households in the bottom fifth have a retirement account in contrast to 91 percent in the top decile. A large share of the bottom 50% of the income scale have no retirement nest egg and rely entirely on Social Security.

To incentivize retirement saving, Congress enacted a series of laws resulting in tax breaks now worth about $380 billion a year in the form of tax favored contributions and tax deferred investment earnings. The tax breaks disproportionately benefit top earners who would likely have saved the money anyhow as well as investment managers as larger balances yield more fees.

Congress could do better and use some of the foregone revenue to provide retirement contributions for the lowest-income. Or make a major dent in Social

Security's financial shortfall. Or fill any number of needs including continuation of the just-expired expanded child tax credits for the lowest income families or simply lowering the budget deficit and debt.

Steven Rosenthal, of the Tax Policy Center, put it succinctly in a recent article in The Hill in which he criticized budget gimmickry Congress uses to obscure the cost of retirement bills: "The retirement system is upside down. It rewards those who don't need help and gives very little to those who do need help… But of course, the retirement industry complex is very, very powerful.'"

Though geared toward wealthy Americans, both the House and Senate retirement packages do include door prizes for the working class: expansion of the little-used saver's tax credit, which subsidizes retirement account contributions for people at the low- or middle-income level by giving them a 50 percent government match for contributions up to $2,000, and automatic enrollment in an employee retirement plan (if there is one). These improvements are likely to have only a marginal impact and will not help workers who need all of their pay to make ends meet.

"Genuine reform would curtail retirement-savings subsidies for higher-income earners, who do not need those subsidies as incentives for retirement savings.," Doran concludes. "(It) would convert tax deductions, tax exclusions, and non-refundable tax credits for lower-income earners into direct, government-funded enhancements of retirement security – preferably through Social Security but otherwise through private retirement accounts." He notes that the status quo generally works for middle-income earners, "who respond as expected to the marginal incentives of retirement-savings subsidies and who likely would not save in the absence of those subsidies."

These reforms make sense but don't go far enough. Everyone should be included and benefit, not just those at the top. Congress should develop a universal retirement system, similar to those in the U.K. and Australia, ensuring that every worker has an account and repurposing the current tax subsidy so that lower-wage workers have annual at least a modest contribution.

True, given the legislative history and their proclivities, it won't be easy for members of Congress to turn around what has become a luxury yacht full of loot and convert it into an equitable passenger ship heading in the opposite direction. Still the work needs to be done.

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