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Including all workers in our retirement savings system requires two things: a universal tax credit and a secure place to invest it. Congress should be working on both.

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Almost half of Americans have no net assets and little or no retirement savings. Many have no money to save, and if they did, and no retirement account to put it in. Meanwhile, Americans at the top of the economic heap get generous tax breaks for retirement savings – and capital gains from these assets widen the wealth gap. [i]

Establishing a national retirement savings system and reshaping tax policy to provide every American worker a modest tax credit to put in a retirement account could improve economic security, help people prepare for old age, and facilitate saving for emergency expenses. This type of inclusive capitalism would make every American worker an owner of assets generating income. Such a system could be funded via a relatively small sacrifice to high earners without increased federal spending.

A retirement savings system that includes all workers – particularly those with limited income -- requires two basic elements: 1) funds to put in a long-term savings and investment account, and 2) an account overseen by a fiduciary in which to put the funds. As often the case in policy discussions in the nation's capital, recent interest in "auto-enrollment" in retirement plans as a way to improve participation begs an essential issue. That is: how create an *institutional setting* in which a large part of the American workforce with no available workplace plan can put dollars to work in the long run with some assurance of protection from depredation or neglect by the financial services industry.

A universal retirement savings system

Here's one way a universal retirement savings system could work: Congress could task an independent board with setting up a national system offering retirement savings accounts for everyone issued a Social Security number. Such accounts would not replace Social Security in any way -- or the bulk of the current private-sector retirement savings -- but rather complement these systems. The board would have fiduciary duty for managing the accounts, which would be particularly helpful to workers whose employers offer no retirement plan and to low-wage workers most of whom are excluded from today's retirement savings system.

The federal government would make modest contributions to these accounts; optimally, the lower someone's wage, the higher the contribution. Workers would be offered basic financial education and would have some latitude to choose from a basic menu of investment options similar to what federal employees have. To accommodate the needs of low-wage workers, accounts could be designed with some flexibility to allow some borrowing for emergency such as getting one's car fixed to get to work or covering medical expenses. Most of the balance, however, including government contributions, needs to be shielded from early withdrawals.

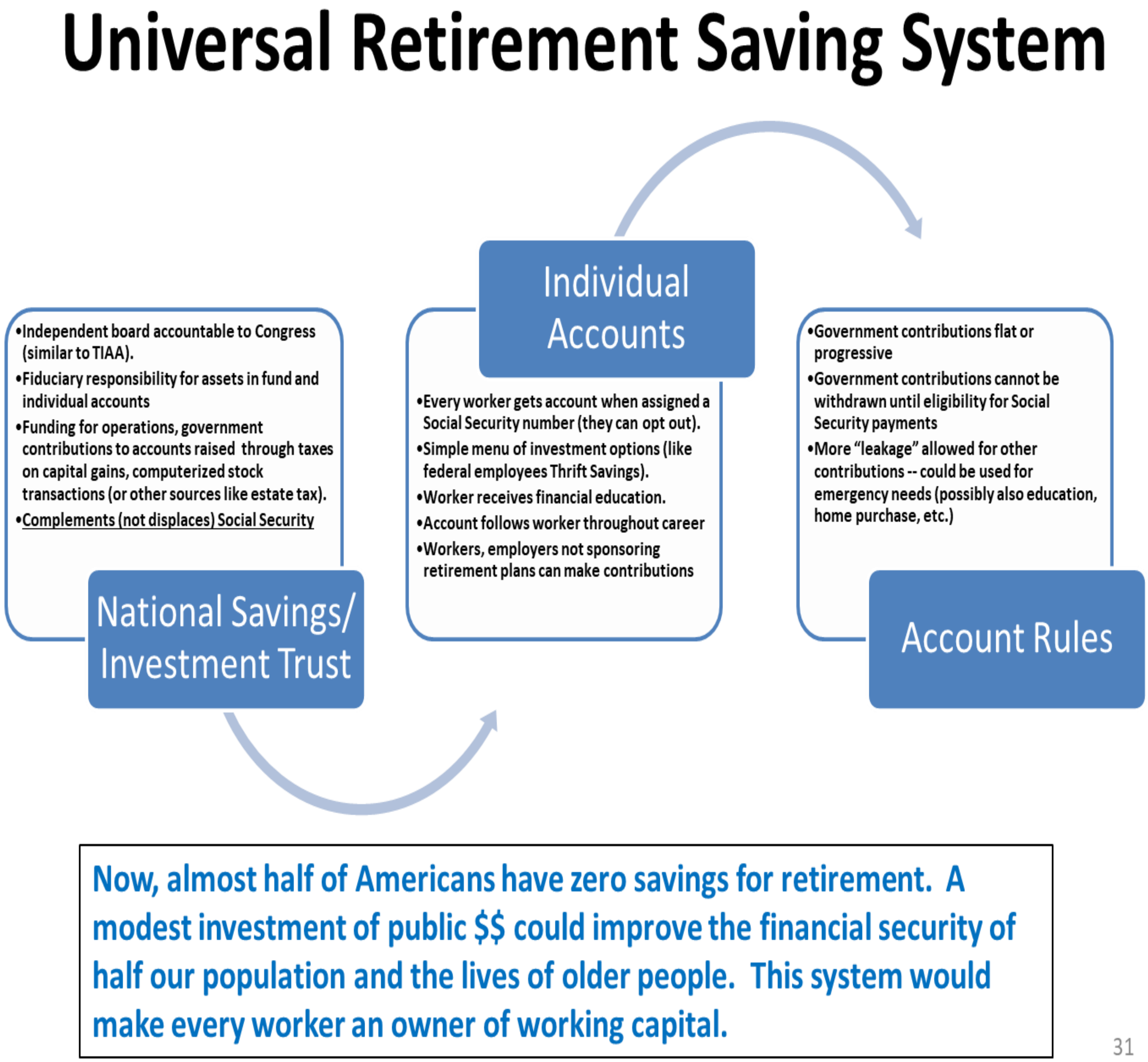
Funding a universal system

Under current law, in 2017 employees could put up to $18,000 in tax-deferred defined contribution (DC) plans (e.g., 401(k)s) and those over age 50 an additional $6,000. Total employee and employer contributions are limited to $54,000.[ii] Using a net present value method (taking into account future earnings and taxes), the Tax Policy Center estimates that in 2016 the tax savings from all tax-qualified pension and DC accounts averaged about $1,040 per taxpayer. (No kidding: 1040.) These tax savings, however, were extremely tilted toward the well-off.[iii] Only 4.4 percent of workers in the lowest fifth of the income distribution received any tax benefit and their average tax savings in 2016 was $20. In contrast, 82 percent of the highest-paid quintile received a tax benefits with an average benefit of $4,750. About 48 percent of the middle fifth received a tax benefit with an average savings of $580.

One way to finance the system

For illustrative purposes, here's one way to pay for universal retirement savings while making tax breaks more equitable: Employer contributions to DC plans would continue to be tax deductible for the employer. However, only the first $5,000 of contributions would be entirely tax exempt for employees as now. Contributions of greater than $5,000 would have a reduced tax advantage. Revenues generated from this change could be used to fund an annual (say $500) tax credit placed a retirement account for each worker. Accounts could be seeded with an initial contribution of $100 to $500 when people start working.

Under this type of system, everyone would have retirement savings and middle- to lower-income people would have more retirement security, some flexibility to meet emergency expenses, and more ability to deal with the risk of living a long time or needing long term care late in life. Over 40 years, for example, the automatic annual public contribution of $500 alone would result in about $67,000, if invested at a five percent real rate of return. Annuitizing that amount could



significantly increase the income of those dependent on Social Security. Or it could cover almost a year of care in a nursing home. Any contributions added by workers or employers would add to these benefits. Because everyone would have a core account run by a fiduciary, everyone would have a place to add retirement savings and advice about investment options.

The core accounts would improve retirement readiness for many people, particularly those in the bottom half of the income distribution. Most of the cost of the $500 contributions could be borne by the top quintile, but it would be a relatively modest increase. Removing the entire current tax break for pensions and DC contributions would increase the effective tax rate for the highest-income quintile by only 1.5 percentage points, according the Tax Policy Center. The change in effective tax rate proposed here would be considerably less than that – with some tax advantage left for the wealthier. Of course, Congress could decide to fund modest universal contributions to DC accounts without squeezing savings out of the current tax exclusion. That is: pull the money from somewhere else.

Models of inclusive capitalism

Some states are moving to fill in the gaps in the retirement savings system, but they face opposition from entrenched interests, including the financial services industry, and the threat of preemption under federal employee benefit law. That's one of many reasons the system needs anchoring at the federal level.

Many of the United States' trading partners offer models for near-universal savings and retirement systems. Under the Pensions Act of 2008, for example, Great Britain is setting up a system in which workers must opt-out of retirement savings plans, rather than opt-in. The United Kingdom also has created the National Employment Savings Trust (NEST) to serve those who do not have an employer pension. Australia's "superannuation" system requires employers to contribute a percentage of employees' income into diversified retirement funds managed by trustees. By 1999, 97 percent of Australia's full-time employees and 76 percent of part-time employees were covered by the superannuation system. Over the years, Australia has increased required contributions and continued to refine the system, which has been credited with raising levels of capital accumulation and improving retirement security.

Increasing inequality, wealth concentration, and economic insecurity have emerged as major issues in the United States and most other Western nations. Absent Congressional action, the American retirement savings system is likely to continue leaving a good share of the population without adequate savings and accelerate growing disparities in wealth.

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[i] "How the American Retirement Savings System Magnifies Wealth Inequality," Karl Polzer, Society of Actuaries monograph, 2016. https://inequalityink.org/resources/2016-diverse-risks-essay-polzer.pdf

[ii] Retirement Plan Contribution and Benefit Limits, Pension Rights Center. http://www.pensionrights.org/publications/fact-sheet/retirement-plan-contribution-and-benefit-limits

[iii] Tax Benefit of Certain Retirement Savings Incentives (Present-Value Approach) by Expanded Cash Income Percentile, 2016, Tax Policy Center. http://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-july-2016/t16-0161-tax-benefit-certain-retirement