Chairman Brown, Ranking Member Toomey, and distinguished members of the subcommittee,
thank you for the opportunity to appear before you today to discuss retirement savings for low-
income Americans. We appreciate this subcommittee’s interest in this topic, and applaud your
highlighting retirement security issues at your recent hearing on December 18, 2013, titled
“Social Security & the Retirement Crisis.”

Background

At that hearing, Mr. Chairman, you noted that “retirement security in America has traditionally
been thought of as a three-legged stool, consisting of Social Security, employer-provided
pensions, and personal savings and investment,” enabling Americans to maintain the standard of
living they enjoyed while they were working, and “to buy homes, start families, and pay for
education.” However, as you also observed, “for far too many Americans, Social Security is the
only leg left standing,” as only about half of the U.S. workforce is covered by an employer-
sponsored retirement plan.

The Administration and the Department of the Treasury remain committed to working with
Congress to help secure a dignified retirement for all Americans. First and foremost, Social
Security is and must remain a rock-solid, guaranteed, progressive benefit on which every
American can rely. To supplement Social Security, the most secure retirement traditionally has
included employer-sponsored retirement plans and individual savings. Yet too many Americans
are not on a path to be sufficiently prepared for retirement. Tens of millions of American
workers lack access to employer-sponsored pensions or retirement savings plans. This puts the
onus on these individuals to set up and save for retirement in IRAs (individual retirement
accounts and individual retirement annuities) on their own. However, fewer than one out of ten
workers eligible to contribute to an IRA do so. By contrast, roughly seven or eight out of ten
workers who are eligible to participate in an employer plan choose to do so (and up to nine out of
ten of those who are automatically enrolled in a 401(k) plan participate).

The risk of an insecure retirement is especially acute for women, minorities, and lower-income
Americans. Women continue to be less prepared for retirement than men. White households
have six times the wealth, including retirement savings, of African American or Hispanic
households. And low-wage and part-time workers are only one third as likely as high-wage and
full-time workers to participate in an employer-based retirement plan.

A number of factors are at work here. In addition to lack of access to employer-sponsored plans,
those who are not currently saving may encounter minimum balance requirements and
administrative- or investment-related expenses that make it difficult to sustain very small accounts. Also, many potential new savers may be hampered by concerns about investment risk and volatility, the challenge of making decisions regarding investment options and other financial choices, and the need to take initiative to establish an account.

**The myRA Retirement Savings Initiative**

In his State of the Union address on January 28, 2014, the President announced “a new way for working Americans to start their own retirement savings . . . a new savings bond that encourages folks to build a nest egg.” This Treasury security, to be held in a Roth IRA, will be designed to help fill a niche in retirement saving by providing a vehicle for deposits, largely by new savers, that may be too small to be of interest to most commercial financial institutions that offer IRAs. This vehicle, called “myRA” (My Retirement Account), is targeted especially to moderate- and lower-income workers, potential first-time savers who are not eligible to participate in employer-sponsored plans and are looking for a simple, safe, and affordable way to start saving. At the same time, the President emphasized his continuing support for legislation to provide for automatic enrollment in workplace IRAs (“auto-IRAs”) for employees of firms that do not sponsor any retirement plan – a proposal he has included in every Administration budget since he took office.

Under the myRA program, workers looking to start saving will be able to purchase a specially-designed Treasury retirement savings bond held in a Roth IRA. The bond will have an add-on feature, meaning that additional contributions will increase the value of a single security, instead of requiring the purchase of multiple securities. The Roth IRA that holds the retirement savings bond will be subject to the same tax treatment and other rules applicable to all Roth IRAs. Accordingly, the myRA saving opportunity will be available to households who are eligible to contribute to Roth IRAs – those earning up to $191,000 a year (married filing jointly; up to $129,000 for individuals) – and 2014 annual contribution limits of $5,500 ($6,500 if age 50 or older). All of these dollar amounts are adjusted for cost-of-living changes.

Other key features of the myRA program, which Treasury intends to begin phasing in by the end of 2014, include the following:

- **Starter Vehicle – Making It Easier to Begin Saving for Retirement.** As noted, this new product will be targeted to those who lack access to a workplace retirement savings plan (usually the most effective way to save for retirement). Starting to save is only the first step toward a secure retirement, and Treasury and the Administration want to help more Americans save for their future. Initial investments could be as low as $25, and contributions that are as low as $5 could be made through payroll deduction. As starter accounts, myRAs will be limited to a cumulative $15,000 each – not a target for saving but rather a transition point at which the individual’s savings would shift to a private-
sector Roth IRA. If a saver’s myRA never accumulates to $15,000, it will be shifted to a private sector Roth IRA after 30 years.

- **Incubator of Small Accounts.** While obviously not nearly enough to fund a secure retirement, $15,000 may be enough to “prime the pump” and instill a lifelong habit of continued saving, and should be enough to make a saver’s account viable in the private sector. In other words, myRA accounts could serve as incubators for accumulations of savings small enough that their administrative costs could exceed their earnings. After successful savers “graduate” to private-sector Roth IRAs, they will be able to continue saving and accumulating balances greater than $15,000 that could be invested in diversified investment portfolios with greater growth potential.

- **Available Through Payroll Deduction at the Workplace.** During an initial phase, myRAs will be offered, only by payroll deduction, to employees of employers that choose to participate. Employees will sign up for myRA accounts online and will not be charged administrative or investment fees. The accounts will be easy for employers to offer, as employers will neither administer the accounts nor contribute to them. As is currently the case for Roth IRAs generally, the account owner – not the employer – is responsible for complying with limits on Roth IRA eligibility based on compensation as well as annual IRA contribution limits. As noted, myRA is intended to help working Americans who lack access to an employer-sponsored retirement plan. Employees who are eligible for employer-sponsored plans will continue to have many good reasons to participate in those plans rather than in myRAs. As a result, myRAs will complement, not compete with, employer-sponsored plans. Additional contribution channels, such as direct participation by the self-employed, will be explored over time, and could be added as feasible.

There is reason to expect that linking saving to an employment-based payroll deduction system could be an important step in boosting participation. For example, millions of employees bought U.S. savings bonds annually through Treasury’s former payroll deposit savings bond program, which for decades allowed employees to buy savings bonds through workplace-based payroll deduction.

- **Safe and Secure.** As noted, the retirement savings security will be held in a familiar Roth IRA account and will constitute the only investment in the IRA. Savers will benefit from principal protection, because the value of the bond, and therefore the IRA account balance, will never decline. In addition, the security, like other U.S. savings bonds issued under 31 U.S.C. 3105, will be backed by the full faith and credit of the United States.

Savers will earn interest at the same variable interest rate as the federal employees’ Thrift Savings Plan Government Securities Investment Fund (G Fund). The G Fund interest rate calculation is based on the weighted average yield of all outstanding Treasury notes and bonds with four or more years to maturity. Over the last ten years, the G Fund has earned annual compounded interest ranging from 1.47 percent to 4.93 percent (3.39 percent compounded over those ten years).
- **Roth IRA Tax Benefits.** Because the IRA holding the bond will be a Roth IRA, the contributions an individual makes can be withdrawn tax free at any time. In addition, earnings that are withdrawn will be free from tax or early withdrawal penalty if they are withdrawn after age 59½ (or on account of death, disability, or to pay certain home purchase expenses) following a five-year holding period in the Roth IRA.

- **Portable Account with Voluntary Contributions.** Savers will have the option of keeping the same account when they change jobs and can directly transfer or roll over the balance into a private-sector Roth IRA at any time. In addition, savers working for more than one participating employer at the same time will be able to contribute to the same account by payroll deduction from each employer.

- **Eligible for Saver’s Credit.** Savers with income below certain levels – currently $60,000 for couples and $30,000 for individuals – will be eligible to claim a saver’s tax credit for their myRA contributions because the saver’s credit applies to contributions to IRAs. The saver’s credit, which ranges in amount from 10 percent to 50 percent of a saver’s first $2,000 of contributions each year, provides an added incentive for lower- and moderate-income individuals to save through myRAs. (This incentive could be strengthened by making the saver’s credit fully refundable and raising the eligibility income threshold to cover millions of additional moderate-income taxpayers, as well as by raising the credit rate to a uniform 50 percent and simplifying the current three-tier credit structure.)

- **Promoting Financial Capability.** The myRA initiative can complement financial education and counseling to help workers plan and save for their futures. As Treasury develops and implements myRAs, we will look for opportunities to use them to promote financial education and capability.

**Continued Commitment to Automatic IRA Proposal**

The Administration remains committed to its proposal for automatic IRAs and encourages Congress to enact it. (A description of that proposal from the Department of the Treasury’s April 2013 General Explanations of the Administration’s Fiscal Year 2014 Revenue Proposals is attached as an appendix to this written statement.) Until Congress acts, we believe that meaningful steps can be taken administratively and by plan sponsors to give workers better access to easy and convenient retirement saving opportunities. The myRA initiative is such a step.²

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² Proposed automatic IRA legislation provides for a Treasury retirement bond to serve as a kind of fallback destination to which employers could, if they wished, send employee salary reduction contributions (For example, some employers might prefer a retirement bond to avoid choosing among private sector IRA providers.) Treasury’s experience in developing a new retirement savings bond under the myRA program will be useful in developing and implementing this kind of option under automatic IRA legislation. See Automatic IRA Act of 2013, H.R. 2035 (sponsored by Rep. Richard Neal (D-MA)).
**Conclusion**

The Administration and the Department of the Treasury are committed to expanding and enhancing retirement security and retirement saving, particularly for lower- and moderate-income American workers. To that end, much remains to be done, including, among other things, promoting more lifetime income in both defined benefit and defined contribution plans, facilitating portability and consolidation of retirement savings, encouraging employers to employ behavioral strategies to make 401(k) plans more automatic and effective, and extending coverage to the tens of millions of workers not currently in the system. We believe that the myRA initiative is one meaningful step in that direction. It is designed to help more lower- and moderate-income households save for retirement, providing a simple, safe, and affordable way to begin a lifelong habit of saving.3 In addition, we continue to encourage Congress to enact an automatic payroll deduction IRA program that will open a route to even more significant improvement in retirement security for American workers, helping to promote a culture of saving and a nation of savers.

We welcome the opportunity to work with the Committee to achieve these important objectives. Thank you, and I look forward to answering your questions.

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3 Individuals and employers are invited to visit www.treasurydirect.gov/readysavegrow or call (800) 553-2663 for more information about myRAs.
PROVIDE FOR AUTOMATIC ENROLLMENT IN INDIVIDUAL RETIREMENT ACCOUNTS OR ANNUITIES (IRAS), INCLUDING A SMALL EMPLOYER TAX CREDIT, AND DOUBLE THE TAX CREDIT FOR SMALL EMPLOYER PLAN START-UP COSTS

Current Law

A number of tax-preferred, employer-sponsored retirement savings programs exist under current law. These include section 401(k) cash or deferred arrangements, section 403(b) programs for public schools and charitable organizations, section 457 plans for governments and nonprofit organizations, and simplified employee pensions (SEPs) and SIMPLE plans for small employers.

Small employers (those with no more than 100 employees) that adopt a new qualified retirement, SEP or SIMPLE plan are entitled to a temporary business tax credit equal to 50 percent of the employer’s plan “start-up costs,” which are the expenses of establishing or administering the plan, including expenses of retirement-related employee education with respect to the plan. The credit is limited to a maximum of $500 per year for three years.

Individuals who do not have access to an employer-sponsored retirement savings arrangement may be eligible to make smaller tax-favored contributions to IRAs.

In 2013, IRA contributions are limited to $5,500 a year (plus $1,000 for those age 50 or older). Section 401(k) plans permit contributions (employee plus employer contributions) of up to $51,000 a year (of which $17,500 can be pre-tax employee contributions) plus $5,500 of additional pre-tax employee contributions for those age 50 or older.

Reasons for Change

For many years, until the economic downturn in 2008, the personal saving rate in the United States has been exceedingly low. Tens of millions of U.S. households have not placed themselves on a path to become financially prepared for retirement. In addition, the proportion of U.S. workers participating in employer-sponsored plans has remained stagnant for decades at no more than about half the total work force, notwithstanding repeated private- and public-sector efforts to expand coverage. Among employees eligible to participate in an employer-sponsored retirement savings plan such as a 401(k) plan, participation rates typically have ranged from two-thirds to three-quarters of eligible employees, but making saving easier by making it automatic has been shown to be remarkably effective at boosting participation well above these levels.

Beginning in 1998, Treasury and the Internal Revenue Service (IRS) issued a series of rulings and other guidance defining, permitting, and encouraging automatic enrollment in 401(k) and other plans (i.e., enrolling employees by default unless they opt out). Automatic enrollment was further facilitated by the Pension Protection Act of 2006. In 401(k) plans, automatic enrollment has tended to increase participation rates to more than nine out of ten eligible employees. In contrast, for workers who lack access to a retirement plan at their workplace and are eligible to engage in tax-favored retirement saving by taking the initiative and making the decisions
required to establish and contribute to an IRA, the IRA participation rate tends to be less than one out of ten.

Numerous employers, especially those with smaller or lower-wage work forces, have been reluctant to adopt a retirement plan for their employees, in part out of concern about their ability to afford the cost of making employer contributions or the per-capita cost of complying with tax-qualification and ERISA (Employee Retirement Income Security Act) requirements. These employers could help their employees save -- without employer contributions or plan qualification or ERISA compliance -- simply by making their payroll systems available as a conduit for regularly transmitting employee contributions to an employee’s IRA. Such “payroll deduction IRAs” could build on the success of workplace-based payroll-deduction saving by using the capacity to promote saving that is inherent in employer payroll systems, and the effort to help employees save would be especially effective if automatic enrollment were used. However, despite efforts more than a decade ago by the Department of the Treasury, the IRS, and the Department of Labor to approve and promote the option of payroll deduction IRAs, few employers have adopted them or even are aware that this option exists.

Accordingly, requiring employers that do not sponsor any retirement plan (and meet other criteria such as being above a certain size) to make their payroll systems available to employees and automatically enroll them in IRAs could achieve a major breakthrough in retirement savings coverage. In addition, requiring automatic IRAs may lead many employers to take the next step and adopt an employer plan, thereby permitting much greater tax-favored employee contributions than an IRA, plus the option of employer contributions. The potential for the use of automatic IRAs to lead to the adoption of 401(k)s, SIMPLEs, and other employer plans would be enhanced by raising the existing small employer tax credit for the start-up costs of adopting a new retirement plan to an amount significantly higher than both its current level and the level of the proposed new automatic IRA tax credit for employers.

In addition, the process of saving and choosing investments in automatic IRAs could be simplified for employees, and costs minimized, through a standard default investment as well as electronic information and fund transfers. Workplace retirement savings arrangements made accessible to most workers also could be used as a platform to provide and promote retirement distributions over the worker’s lifetime.

**Proposal**

The proposal would require employers in business for at least two years that have more than ten employees to offer an automatic IRA option to employees, under which regular contributions would be made to an IRA on a payroll-deduction basis. If the employer sponsored a qualified retirement plan, SEP, or SIMPLE for its employees, it would not be required to provide an automatic IRA option for its employees. Thus, for example, a qualified plan sponsor would not have to offer automatic IRAs to employees it excludes from qualified plan eligibility because they are covered by a collective bargaining agreement, are under age eighteen, are nonresident aliens, or have not completed the plan’s eligibility waiting period. However, if the qualified plan excluded from eligibility a portion of the employer’s work force or a class of employees such as
all employees of a subsidiary or division, the employer would be required to offer the automatic IRA option to those excluded employees.

The employer offering automatic IRAs would give employees a standard notice and election form informing them of the automatic IRA option and allowing them to elect to participate or opt out. Any employee who did not provide a written participation election would be enrolled at a default rate of three percent of the employee’s compensation in an IRA. Employees could opt out or opt for a lower or higher contribution rate up to the IRA dollar limits. Employees could choose either a traditional IRA or a Roth IRA, with Roth being the default. For most employees, the payroll deductions would be made by direct deposit similar to the direct deposit of employees’ paychecks to their accounts at financial institutions.

Payroll-deduction contributions from all participating employees could be transferred, at the employer’s option, to a single private-sector IRA trustee or custodian designated by the employer. Alternatively, the employer, if it preferred, could allow each participating employee to designate the IRA provider for that employee’s contributions or could designate that all contributions would be forwarded to a savings vehicle specified by statute or regulation.

Employers making payroll deduction IRAs available would not have to choose or arrange default investments. Instead, a low-cost, standard type of default investment and a handful of standard, low-cost investment alternatives would be prescribed by statute or regulation. In addition, this approach would involve no employer contributions, no employer compliance with qualified plan requirements, and no employer liability or responsibility for determining employee eligibility to make tax-favored IRA contributions or for opening IRAs for employees. A national web site would provide information and basic educational material regarding saving and investing for retirement, including IRA eligibility, but, as under current law, individuals (not employers) would bear ultimate responsibility for determining their IRA eligibility.

Contributions by employees to automatic IRAs would qualify for the saver’s credit to the extent the contributor and the contributions otherwise qualified.

Small employers (those that have no more than 100 employees) that offer an automatic IRA arrangement could claim a temporary non-refundable tax credit for the employer’s expenses associated with the arrangement up to $500 for the first year and $250 for the second year. Furthermore, these employers would be entitled to an additional non-refundable credit of $25 per enrolled employee up to $250 for six years. The credit would be available both to employers required to offer automatic IRAs and employers not required to do so (for example, because they have ten or fewer employees).

In conjunction with the automatic IRA proposal, to encourage employers not currently sponsoring a qualified retirement plan, SEP, or SIMPLE to do so, the non-refundable “start-up costs” tax credit for a small employer that adopts a new qualified retirement, SEP, or SIMPLE would be doubled from the current maximum of $500 per year for three years to a maximum of $1,000 per year for three years and extended to four years (rather than three) for any employer that adopts a new qualified retirement plan, SEP, or SIMPLE during the three years beginning when it first offers (or first is required to offer) an automatic IRA arrangement. This expanded
“start-up costs” credit for small employers, like the current “start-up costs” credit, would not apply to automatic or other payroll deduction IRAs. The expanded credit would encourage small employers that would otherwise adopt an automatic IRA to adopt a new 401(k), SIMPLE, or other employer plan instead, while also encouraging other small employers to adopt a new employer plan.

The proposal would become effective after December 31, 2014.