November 3, 2016

The Honorable Ron Wyden
Ranking Member, Senate Committee on Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Electronically submitted at: Retirement_Savings@finance.senate.gov

Dear Senator Wyden:

We write in response to your request for comments on the discussion draft of the Retirement Improvements and Savings Enhancements (RISE) Act of 2016. The Bipartisan Policy Center commends your innovative proposals to improve retirement security and encourage Americans to save more for retirement. BPC's Commission on Retirement Security and Personal Savings made recommendations on some of the topics addressed in the RISE discussion draft.[1] This letter represents the feedback of BPC staff on the discussion draft and does not necessarily represent the views or opinions of the organization's founders, members of its board of directors, or commissioners.

- **Provision to create a matching contribution for retirement savings** (Expand eligibility for the Saver's Credit by increasing income limits and making the credit refundable; require the credit to be deposited directly to a retirement account so it operates similarly to a matching contribution from an employer.)

The commission recommended a similar approach to change the existing Saver's Credit into a matching contribution that would be directly deposited into the retirement accounts of lower-income workers. To limit the cost of the reform, the commission proposed to limit a new "Starter Saver's Match" to younger workers, which would focus the benefits of the match on those who might be deciding whether to start saving for retirement and would have many decades for these savings to compound before reaching typical retirement ages. Specifically, the commission proposed that a dollar-for-dollar match up to a maximum of $500 per year would be available for workers aged 18-35. The match would phase out between $25,000 and $30,000 of adjusted gross income (AGI) for single filers and between $50,000 and $60,000 of AGI for joint

[1] Details on the commission's recommendations regarding retirement tax expenditures are available on pp. 51-55 of *Securing Our Financial Future: Report of the Commission on Retirement Security and Personal Savings.* http://bipartisanpolicy.org/retirement-security.

filers. The existing Saver's Credit would continue to be available for workers aged 36 and older.

The Urban Institute analyzed BPC's Starter Saver's Match proposal using the DYNASIM3 microsimulation model. The modelers found that about 10 percent of workers who are no older than 35 and who are offered a workplace retirement savings plan would receive the Starter Saver's Match. The cost of this proposal to the federal budget would be approximately $8.4 billion over the first 10 years of implementation (2017-2026).

- **Provision to repeal the maximum age for traditional Individual Retirement Arrangement (IRA) contributions**
  (Allow otherwise-eligible workers to continue to contribute to tax-deferred IRAs beyond age 70 ½, harmonizing with the policy for Roth IRAs, which do not have an upper age limit.)

While the commission did not consider this proposal, we think it is reasonable. This reform would reinforce other approaches to encourage longer working lives, especially for those who started saving for retirement later in their careers.

One consideration here should be the additional budgetary cost of this tax deferral, which must be weighed against the potential benefits from increased savings for retirement. Although the revenue impact would likely be modest regardless of how it is estimated, BPC's commission recommended changing congressional budget-estimation rules to use a more-accurate, long-term approach for evaluating changes to retirement tax expenditures, discussed below.

- **Provision to establish an upper limit on the amount an individual may save in a Roth IRA**
  (Prohibit additional contributions to Roth IRAs that exceed the greater of $5 million or the balance as of 12/31/2016. Additionally, require distribution of balances that exceed this limit.)

The commission recommended a more-limited approach that would prohibit additional contributions to retirement savings accounts (defined contribution plans and IRAs) once these total assets exceed $10 million (indexed annually to economy-wide wage growth) for an individual. The proposal would not require distribution of balances exceeding that threshold. The discussion-draft approach, with a lower limit (for non-grandfathered individuals) and the requirement that amounts above the limit be promptly distributed, would likely generate greater savings. With this more-aggressive approach, we think it is wise to grandfather current account balances that exceed the proposed limit, as the discussion draft proposes.

- **Provision to eliminate the ability to convert tax-deferred accounts to Roth accounts**

While BPC's commission did not consider whether Roth conversions should be allowed, it did recommend changing congressional budget-estimation rules to use a more-accurate, long-term approach for evaluating retirement tax expenditures. Because most of the revenue effects for new Roth contributions (i.e., the tax-free withdrawals) lie beyond the traditional 10-year budget scoring window, an estimation methodology that incorporates the discounted present value of the long-term projected effects would give lawmakers better information about the likely impacts of this and other proposals to modify eligibility for tax-deferred and Roth accounts.

- **Provision to exempt participants with retirement-account balances of less than $150,000 from required minimum distribution (RMD) rules**

The commission recommended the same approach but with a $100,000 threshold. This provision would enable older Americans with modest retirement savings to preserve these assets for emergencies or unexpected needs, such as to pay for long-term services and supports. To some of the specific questions included in the request for comments:

  - The discussion-draft suggestion that individuals be allowed to self-certify to service providers that they qualify for the exemption seems reasonable. A separate commission proposal—to encourage private-sector efforts to establish a Retirement Security Clearinghouse that would share information among servicers, ease transfers and rollovers, and reduce leakage—could also facilitate this provision by enabling service providers to automatically determine which defined contribution (DC) plan participants and IRA owners are eligible for the exemption from RMD rules.[2]
  - We are concerned that the discussion-draft proposal to establish a phase-out range for the RMD exemption could add unnecessary complexity in administering the provision. We recommend a simpler approach of applying current-law RMDs for individuals with retirement savings above the threshold and ceasing all RMDs for individuals below the threshold.

- **Provision to eliminate the "stretch IRA" estate-planning tactic** (Require non-spousal beneficiaries to distribute inherited IRA assets over five years, with an exception for beneficiaries with special needs.)

BPC's commission proposed this approach as well, and we are encouraged that a version of this provision was included in the Retirement Enhancement and Savings Act (RESA) of 2016 that recently passed the Senate Finance Committee with unanimous support. This bill also includes several other provisions that align with the commission's recommendations, such as steps to facilitate broader use of pooled plans, lifetime-income projections on DC-plan statements, and a revised carrier-selection safe harbor for guaranteed lifetime-income products.

[2] For more on the commission's proposal to create a private-sector Retirement Security Clearinghouse, please see p. 50 and pp. 58-59 of *Securing Our Financial Future: Report of the Commission on Retirement Security and Personal Savings.* http://bipartisanpolicy.org/retirement-security.

Suggestions on Other Topics Related to Retirement Savings

We also appreciate the request for comments on other topics related to retirement savings. BPC's commission made dozens of recommendations spanning six major topics: improving access to workplace retirement savings plans; promoting personal savings for short-term needs and preserving retirement savings for older age; reducing the risk of outliving savings, such as by expanding the availability of lifetime-income features within retirement plans; facilitating the use of home equity for retirement consumption; improving financial capability among all Americans; and strengthening Social Security's finances and modernizing the program.[3] As mentioned above, some of the commission's recommendations are reflected in various provisions of the RISE Act discussion draft, as well as the recently reported RESA legislation. We hope that the Senate Finance Committee and other committees of jurisdiction will act to address these challenges in the next Congress. The need will only become greater as roughly 10,000 baby boomers reach retirement age each day, while millions of working Americans still do not have access to a workplace retirement savings plan.

Additional proposals from the commission that are particularly relevant to the provisions included in the discussion draft are:

- **Enhance the myRA program to allow automatic enrollment and employer contributions**

While the pooled-employer plan approach included in the RESA legislation would help to expand access to workplace retirement savings plans, especially among smaller employers, the commission believes that the myRA program might better serve some types of employers, such as those with many seasonal, part-time, and lower-earning employees. Currently, however, myRA does not allow automatic enrollment nor can employers contribute to worker accounts. Establishing myRA in statute and allowing these features, with reasonable safeguards, would improve the effectiveness of this savings vehicle and potentially provide access to workplace retirement savings for some critical groups of employees.

- **Clarify that plan sponsors may establish different default tax treatments to benefit both lower- and higher-earning employees**

While employers may use automatic enrollment with either Roth or tax-deferred accounts, existing regulation is unclear on whether employers must use the same default tax treatment for all employees. Furthermore, Roth automatic-enrollment arrangements are rare even though lower-earning employees—who might owe little or nothing in income taxes—would derive greater benefit from them than tax deferral. Modifications to regulations and a new safe harbor should clarify that plan sponsors may automatically enroll some employees into Roth accounts and others into tax-deferred accounts, as long as participants retain the option to switch.

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[3] An executive summary, as well as complete recommendations, are available at: http://bipartisanpolicy.org/library/retirement-security/

- **Exclude modest retirement-account balances from asset tests to remove disincentives to saving for lower-income Americans**

For some lower-income workers, asset tests for programs upon which they rely, such as Medicaid, Supplemental Security Income, and the Supplemental Nutritional Assistance Program, are an insurmountable barrier to saving for retirement. The commission recommended excluding the first $25,000 of savings in retirement accounts (IRAs and DC plans) from asset tests for all public programs.

Thank you for the opportunity to provide feedback on the discussion draft. Please let us know if we can be of further assistance.

Sincerely,

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