

GAO Highlights

Highlights of [GAO-13-699](#), a report to the Ranking Member, Subcommittee on Select Revenue Measures, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Participants in DC plans and IRAs may receive tax incentives for their contributions and lower-earning households may qualify for the Saver's Credit, an additional tax incentive for their contributions. However, less than half of the workforce participates in an employer-sponsored plan and upper-income workers have been more likely to take advantage of associated tax incentives. In recent years, proposals have been put forth to modify the Saver's Credit and create automatic IRAs, under which employers who do not sponsor a plan would generally be required to offer their employees the opportunity to save in an IRA through payroll deduction. These proposals would have fiscal impacts for the federal government.

GAO was asked to review tax incentives for contributions to DC plans and automatic IRAs. GAO examined (1) the earnings and tax rates of households that do not have DC plans or IRAs, (2) the effects of the Saver's Credit on retirement income, and (3) the effects of automatic IRAs on retirement income, especially for low- and middle-income workers. GAO examined the characteristics of households that do not take advantage of these tax incentives using data from the 2010 Survey of Consumer Finances, simulated the effects of the Saver's Credit and automatic IRAs, and reviewed related proposals.

GAO is making no recommendations. GAO received technical comments on a draft of this report from the Department of Labor and the Department of the Treasury, and incorporated them as appropriate.

View [GAO-13-699](#). For more information, contact Charles Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

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AUTOMATIC IRAS

Lower-Earning Households Could Realize Increases in Retirement Income

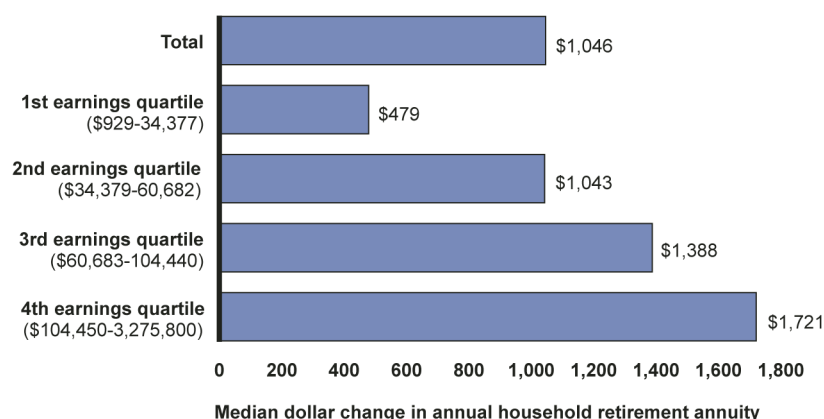
What GAO Found

Households without employer-sponsored defined contribution (DC) pension plans or individual retirement accounts (IRA) had lower incomes and tax rates than households with those plans, and are also likely to have limited additional resources to draw upon in retirement, according to GAO estimates. The median adjusted gross income for households without DC plans or IRAs was \$32,000, compared to \$75,000 for those that did have them. The median marginal tax rate for households without DC plans or IRAs was 15 percent, compared to 25 percent for households with those savings vehicles. A defined benefit (DB) pension plan could provide a monthly benefit during retirement years for those without a DC plan or IRA; however, in 2010 only 15 percent of married households and 11 percent of single households without a DC plan or IRA had a DB plan.

The existing Saver's Credit tax incentive could result in small increases in a household's retirement annuity—that is, the household's annual retirement income received from DC or DB plans. GAO estimates that, on account of this credit, the median annuity increase for households in the lowest earnings quartile (\$929-34,377) would be \$155. If, however, the Saver's Credit was refundable (i.e., could generate a tax refund in excess of tax paid), it could result in larger increases in households' annuities across all earnings levels, and the median increase for households in the lowest earnings quartile would be \$876 per year.

Implementing automatic IRAs, unless waived by participants, could expand retirement coverage and modestly increase retirement annuities for households at all earnings levels. Specifically, 7 percent of all households could receive retirement annuities from automatic IRAs even though these households had no DB or DC plans, according to GAO's projections. Workers with DB or DC plans could also benefit from automatic IRAs at certain points in their lifetime if their jobs do not offer such plans. Moreover, low-income workers could see a sizable increase in their annuities under automatic IRAs and the existing Saver's Credit—the projected median dollar increase for these households' annual retirement annuity would be \$479.

Projected Annual Changes in Households' Retirement Annuity under Automatic IRAs



Source: GAO analysis using the Policy Simulation Group's microsimulation models.