EDUCATION

Our Request to Congress: Save Our Savings—and Our Retirement!

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One of President Donald Trump's campaign promises was to overhaul the US tax code. The administration recently released its tax proposal, and the pundits have been weighing in on how it will affect us all. As Congress continues to debate the latest version of the plan, which passed through the House of Representatives on November 16, Franklin Templeton's Yaqub Ahmed, Drew Carrington and Michael Doshier have a message to Washington: Save our Savings!

Like most people, we were interested to see the details of President Trump's new tax plan. The existing private-sector retirement system allows middle-class Americans to make the most of their retirement dollars, so we were pleased to see US House of Representatives' "Tax Cuts & Jobs Act" preserve popular retirement savings options that help Americans save for their retirement, such as 401(k) plans and Individual Retirement Accounts (IRAs).

With the passage of the plan in the House, its fate now rests in the hands of the Senate.

However, the debate is not yet over. The Senate had unveiled a version of the plan November 9 which imparted a few changes to the original House plan. One of these relates to the so-called "catch-up" provision. Currently, all individuals over the age of 50 can make extra pre-tax (catch-up) contributions to their defined contribution plans—that is, contribute a bit more money than younger individuals on a pre-tax basis to help them "catch up" so to speak on their efforts to save for retirement.

Under the Senate's earlier proposal, individuals making $500,000 or more would not be able to take advantage of the catch-up provision. This would impart a "means-based" testing system.

On November 13, Senate Finance Committee Chairman Orrin Hatch proposed some additional tweaks to the Senate proposal, namely in the area of the catch-up provisions. As a means-based testing system could be problematic for a number of reasons, we were pleased to see Hatch's revised proposal did not contain it.

His subsequent proposal would require all catch-up contributions to section 401(k), 403(b) and 457(b) plans be made on an after-tax basis—that is, as Roth plans.[1]

The carrot, if you will, is that the current $6,000 catch-up contribution limit would be raised to $9,000. Keep in mind, everyone, including those older than 50, would continue to be eligible to make pre-tax contributions of up to $18,500 a year. These changes would only apply to the additional catch-up amounts for those over age 50.

Hatch has since released further modifications removing the means testing catch-up contributions.

The process is ongoing, and we'll be watching carefully for further revisions and developments.

As we wait for any further iterations of tax legislation impacting retirement plans, we have joined a coalition of industry partners with one request to Congress: Save our Savings!

Today's Employer-Based Retirement System is Working

The convenience of being able to contribute directly to an employer-sponsored retirement plan through payroll deduction makes it easy for millions of Americans to save for retirement. In fact, 80% of households who have a retirement account say its tax treatment is a big incentive to contribute, and about 90% of households oppose both taking away the tax advantages of retirement accounts and reducing the amount individuals can contribute to retirement accounts.[2]

Franklin Templeton's 2017 US Retirement Income Strategies and Expectations (RISE) survey confirmed the importance of these vehicles.[3] The annual RISE survey aims to gauge individuals' attitudes toward retirement and preparedness for the future.

The findings revealed that employer-sponsored retirement plans are most likely to be considered the primary source of retirement income. The Gen X (41%) and Millennial (35%) generations are most likely to say a current 401(k), 403(b) or 457 plan is part of their strategy. That is why it's so important that we continue to encourage people to save—and continue to offer incentives to do so.

It's our view that any proposed legislative changes must be made with the exclusive goal of making the population as a whole better prepared for retirement. The debate around some of the proposed changes to the retirement system doesn't accomplish this, in our opinion—they appear to be more about budget accounting and when taxes are collected. We strongly believe those are not the reasons to make changes to the retirement system we have in place today, a system that, while not perfect, has been working for millions of Americans.

While we understand the difficulty legislators face, our focus is on retirement. We think about whether these changes will improve participation and savings, and offer access to the tools people need to secure a dignified retirement.

And, Retirement Plans Help the Economy Too

Not only do retirement plans help individuals, they also have an economic impact. At the end of 2016, US retirement assets totaled $26.6 trillion in the equity and fixed income markets.[4] These contributions help make our capital markets the largest and most liquid in the world, giving businesses the necessary funds to create more goods and services.

Lawmakers today can help preserve, enhance, and expand the system that's benefited millions of Americans.

Hopes and Fears

Most of us have dreams about what our ideal retirement will be—and our RISE survey revealed most are looking forward to it. This year's survey also revealed more investors felt their retirement would be "much better" than previous generations—Millennials surveyed were 2.5 times more like than GenXers to feel this way.

However, the majority of respondents (53%) expressed concern about not achieving their long-term retirement investment goals.

It is clear that many people will need to supplement Social Security. That is why it's so important that we continue to encourage people to save—and continue to offer incentives to do so.

We expect there to be more change as this process continues to move forward in Congress. There will no doubt be a lot of back and forth on issues that have nothing to do with retirement. But what we'd like to emphasize is that if we are going to change the retirement system, those changes should be done with the exclusive goal of improving retirement readiness for all US citizens.

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1. Under existing rules, a Roth IRA allows investment earnings to accumulate and be withdrawn tax free if the account has been established for at least five years, and you're at least 59-1/2 years old. A Traditional IRA allows investment earnings to accumulate tax deferred, and depending on your income level and your participation in an employer-sponsored retirement plan, contributions may also be tax deductible. If taken prior to age 59½, a distribution will generally be subject to a 10% federal penalty unless it falls under certain exceptions.

2. American Views on Defined Contribution Plan Saving, 2016, Investment Company Institute, page 7, 11.

3. The 2017 Franklin Templeton Investments Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,013 adults comprising 1,009 men and 1,004 women 18 years of age or older. The survey was administered between January 5 and 18, 2017, by ORC International's Online CARAVAN®. Generational groups are defined as follows: Millennials (ages 18-36), Gen X (ages 37-52), Baby Boomers (ages 53-71), and the Silent Generation (ages 72-90).

4. Source: Investment Company Institute.