# Retirement Policy Recommendations for the 119th Congress

The Bipartisan Policy Center and BPC Action have long been leaders on retirement security policy, guided by the wide-ranging findings and recommendations of our bipartisan Commission on Retirement Security and Personal Savings. We played major roles in the development and passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 and SECURE 2.0 Act of 2022.

Despite that progress, tens of millions of U.S. workers lack access to the most effective retirement-saving tools, and survey after survey show that Americans feel poorly prepared for retirement. But the 119th Congress can keep up bipartisan momentum on this important issue area, and conversations have already begun both on and off Capitol Hill regarding "SECURE 3.0" legislation. This piece describes 16 proposals that lawmakers should consider when seeking bipartisan, productive reform options that would advance Americans' financial security in retirement.

* Recommendations marked with an asterisk relate to taxes and could be relevant in negotiations surrounding the 2025 expiration of much of the 2017 Tax Cuts and Jobs Act.

## Policy Recommendations

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| Expanding Access to Workplace Retirement Savings Plans | 1. Enroll more workers in automatic IRAs by aligning Customer Identification Program (CIP) rules with 401(k) plans. |
| | 2. *Extend retirement plan startup tax credits to nonprofits. |
| | 3. Lower the required-coverage age for workplace retirement plans from 21 to 18 and ease the regulatory cost of covering those employees. |
| Improving Automatic Features to Facilitate Consistent Saving and Investing | 4. Enable qualified default investment alternatives (QDIAs) for IRAs. |
| | 5. Address the negative effect of job transitions on savings rates. |
| | 6. Create a more flexible safe harbor for defined contribution plans to strengthen incentives to save for retirement and expand access to workplace plans. |

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| Targeting Government Support to Allow All Americans to Secure Their Own Retirement | 7. *Exempt small retirement-account balances from required minimum distribution (RMD) rules. |
| | 8. Exclude modest retirement-account balances from asset tests to remove disincentives to saving for lower-income Americans. |
| | 9. *Establish an overall limit on the total assets an individual can hold in tax-advantaged savings accounts. |
| | 10. End subsidies that encourage the use of home equity for preretirement consumption. |
| Improving Tools for Saving for Emergencies | 11. Simplify pension-linked emergency savings accounts (PLESAs). |
| | 12. Allow non-pension-linked emergency savings accounts ( "out-of-plan" ESAs) to leverage key automatic enrollment features. |
| Facilitating Protected Income Streams to Reduce the Risk of Outliving Savings | 13. Encourage plan sponsors to add protected income strategies and solutions to retirement plans. |
| | 14. Rename Social Security claiming ages to clarify the implications of claiming benefits at different ages. |
| | 15. Repeal or reform the Social Security Retirement Earnings Test (RET). |
| Improving How Congress Estimates the Cost of Retirement Expenditures | 16. *Direct the Congressional Budget Office and Joint Committee on Taxation to estimate retirement-related tax expenditures using a long-term approach based on the discounted net present value of projected revenue changes. |

# Expanding Access to Workplace Retirement Savings Plans

## Enroll more workers in automatic IRAs by aligning Customer Identification Program (CIP) rules with 401(k) plans.

The CIP was designed to prevent money laundering and the financing of terrorism. Regulators, recognizing that the CIP process can be burdensome for financial institutions and inhibit consumer access to savings vehicles, exempt a variety of customers and accounts that present a low risk of illicit activity. For example, federally qualified retirement plans such as 401(k)s do not need to verify their participants under the CIP. But automatic IRAs, despite being employer-facilitated via payroll deductions just like 401(k)s and presenting an overall *lower* risk of being used for illicit activity, are not exempt. As a result, CIP rules have blocked the enrollment of more than 2 million Americans into automatic IRAs.

> Policymakers could also reduce or alter the information required to pass the CIP verification. Exemption or reform could be done legislatively or by regulators.

## *Extend retirement plan startup tax credits to nonprofits.

Just like for-profit companies, nonprofits often want to provide a retirement plan as a benefit for their workers but can face substantial financial obstacles. Unlike for-profit companies, nonprofits are not eligible for the substantial tax credits available to offset administrative costs during the first three years of offering employees a retirement plan. Currently, these tax credits only apply to income taxes, which nonprofits do not pay, but should be extended to offset the payroll taxes nonprofits do pay.

> In the 118th Congress, BPC Action endorsed the bipartisan Small Nonprofit Retirement Security Act (S. 4965), sponsored by Sens. James Lankford (R-OK) and Catherine Cortez Masto (D-NV), which would have made the credit for small employer pension plan startup costs and the retirement auto-enrollment credit available to eligible small employers that are exempt from income tax.

## Lower the required-coverage age for workplace retirement plans from 21 to 18 and ease the regulatory cost of covering those employees.

Currently, employers that offer 401(k)-type plans are required to make the plans available to employees who are 21 years old and over, despite the fact that just 61% of recent high school graduates enroll in college. Because of the power of compound interest, a few additional years of modest savings early in a worker's career can make a dramatic difference in retirement security. Although employers can already extend coverage to younger workers, doing so entails additional administrative requirements. Eliminating those requirements—for example by exempting younger workers from being included in nondiscrimination testing—would substantially reduce administrative costs for employers.

> In the 118th Congress, BPC Action endorsed the bipartisan Helping Young Americans Save for Retirement Act (S. 3305, H.R. 9281), sponsored by Reps. Brittany Pettersen (D-CO) and Tim Walberg (R-MI) and Sens. Bill Cassidy (R-LA) and Tim Kaine (D-VA), which would have lowered the required-coverage age to 18 and removed administrative barriers to doing so.

# Improving Automatic Features to Facilitate Consistent Saving and Investing

## Enable qualified default investment alternatives (QDIAs) for IRAs.

Many workers roll their 401(k)-type accounts into an IRA when they switch jobs, but because IRAs cannot have a default investment, investors must actively choose a portfolio allocation. Many do not take that extra step, leaving their assets in cash and forgoing significant compounding investment returns. Vanguard research shows that 28% of rollovers that entered Vanguard IRAs as cash were still in cash seven years later.

## Address the negative effect of job transitions on savings rates.

Automatic enrollment in retirement plans and annual automatic escalation of employee contributions together provide a powerful tool for increasing retirement savings, but much of the benefit can be undone when someone changes jobs and is automatically enrolled in a new plan at a lower contribution rate. Lawmakers could address this structural weakness by enabling plan sponsors to automatically enroll new hires at the same rate as in their previous job (if, for instance, both employers use the same financial institution as plan recordkeeper) or implement different default contribution levels for employees of different ages.

## Create a more flexible safe harbor for defined contribution plans to strengthen incentives to save for retirement and expand access to workplace plans.

Existing contribution safe harbors that exempt employers from annual nondiscrimination testing are very prescriptive and require the employer to offer contributions to their employees' retirement plans. This requirement may be appropriate for larger businesses, which typically already offer retirement plans with an employer contribution, but it might also explain the reluctance of many smaller employers to sponsor a plan. A more flexible safe harbor applying best practices in retirement plan design would allow small business owners to simply determine an affordable level of employer contributions and then accept annual contribution limits commensurate with that decision.

> In the 117th Congress, BPC Action endorsed the Retirement Security Flexibility Act (S. 2602), sponsored by Sens. Todd Young (R-IN), Cory Booker (D-NJ), and Raphael Warnock (D-GA), which would have reformed the automatic-enrollment safe harbor.

# Targeting Government Support to Allow All Americans to Secure Their Own Retirement

## *Exempt small retirement-account balances from required minimum distribution (RMD) rules.

RMD rules require individuals to regularly withdraw savings from their retirement accounts starting at age 73 to ensure these accounts are used to provide income during old age and not as indefinite tax shelters. Many workers with lower lifetime earnings, however, use Social Security and other income streams to cover recurring expenses and would benefit from preserving modest amounts in defined contribution (DC) plans or IRAs for larger, irregular expenses. Exempting total savings in qualified retirement accounts of, for example, $100,000 to $150,000 from RMD rules would enable these workers to do so.

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

Individuals and couples who save beyond certain minimal thresholds become ineligible for means-tested programs such as Medicaid, Supplemental Security Income (SSI), and the Supplemental Nutritional Assistance Program (SNAP). These programs impose strict asset limits—often as low as $2,000 for individuals and $3,000 for couples—that haven't been increased in decades. Allowing beneficiaries to save a modest amount (of, for example, $30,000 to $50,000) for retirement without disqualifying them from essential benefits would strengthen incentives to responsibly prepare for their financial futures.

> In the 118th Congress, BPC Action endorsed the SSI Savings Penalty Elimination Act (S. 2767, H.R. 5408), sponsored by Sens. Sherrod Brown (D-OH), Bill Cassidy (R-LA), Bob Casey (D-PA), Susan Collins (R-ME), Ron Wyden (D-OR), and James Lankford (R-OK) and Reps. Brian Fitzpatrick (R-PA) and Brian Higgins (D-NY). This bill would have increased SSI's asset limit to $10,000 for individuals and $20,000 for couples.
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> *In the 118th Congress, BPC Action endorsed the Ensuring Nationwide Access to Better Life Experience (ENABLE) Act (S. 4541, H.R. 9614), introduced by Sens. Eric Schmitt (R-MO) and Bob Casey (D-PA) and Reps. Lloyd Smucker (R-PA), Don Beyer (D-VA), and several others. This bill would have extended three provisions set to expire at the end of 2025 that are related to ABLE accounts, which allow people with disabilities and their families to save and invest through tax-free savings accounts without losing eligibility for federal programs like Medicaid and SSI.

### *Establish a limit on the total assets an individual can hold in tax-advantaged savings accounts.

As of 2019, 497 Americans each held more than $25 million in their IRAs, and approximately 130,000 households had accumulated at least $5 million in tax-advantaged retirement accounts including both IRAs and 401(k)-type accounts. In stark contrast, median holdings are just $87,000 among the 54% of U.S. households with any savings in retirement accounts. Congress certainly should not create obstacles to saving for retirement, but individuals who have already secured their financial future do not need further subsidies from federal taxpayers, which reduce the government's ability to tackle priorities on this list and in other policy areas.

### End subsidies that encourage the use of home equity for preretirement consumption.

The portion of older Americans holding mortgage debt has more than doubled since the early 1990s, threatening retirement security. Debt service can sap limited retirement income, leaving retirees with less to spend on day-to-day needs, medical expenses, or emergencies. Part of the blame lies with federal policy, which encourages the depletion of home equity by making mortgage interest tax deductible. Tax deductions should no longer apply to mortgage interest when home equity decreases, such as through home equity lines of credit (HELOCs), mortgage debt for second homes, and second mortgages that reduce home equity.

## Improving Tools for Saving for Emergencies

### Simplify pension-linked emergency savings accounts (PLESAs).

In light of increasing recognition that emergency savings help protect and increase retirement savings, SECURE 2.0 introduced PLESAs—liquid savings accounts linked to a worker's defined contribution retirement plan. But the exclusion of "highly compensated employees" from eligibility, the structure of the $2,500 account balance cap, and other technical quirks make PLESAs difficult to administer. Policymakers should simplify PLESAs to promote greater adoption.

### Allow non-pension-linked emergency savings accounts ("out-of-plan" ESAs) to leverage key automatic enrollment features.

Lawmakers' recent emphasis on emergency savings has magnified its role as a potential employee benefit, leading to growth in the market for out-of-plan ESAs. These out-of-plan accounts offer flexibility and key benefits, allowing for job portability and enabling employers to offer seed funding and matching contributions. But these accounts cannot currently leverage the automatic features that dramatically increase participation—features that PLESAs *can* implement.

# Facilitating Protected Income Streams to Reduce the Risk of Outliving Savings

## Encourage plan sponsors to add protected income strategies and solutions to retirement plans.

There is significant participant demand for features and products that can turn accumulated retirement savings into a steady, protected stream of income in retirement. Policy options include creating safe harbors for plan sponsors that:

- Implement an active-choice approach for retirement-income features. Whereas an opt-out policy automatically enrolls those who take no action and an opt-in policy requires individuals to take initiative to enroll, an active-choice framework lays out several options and requires individuals to choose their preference. An active-choice approach holds special promise for the use of protected income within workplace retirement plans, as savers express significant interest in such solutions even while opt-out approaches might not be appropriate because some protected income choices are irrevocable.

- Help participants make informed decisions about when to claim Social Security benefits and how to use their retirement-plan savings to facilitate later claiming. Waiting past the age of 62 to claim Social Security benefits increases monthly benefits, strengthens protection against outliving savings, and generally nets the average retiree more benefits over their lifetime.

- Offer participants a service that automates laddering for purchases of a protected-income product. Individuals who purchase an annuity contract risk buying at the wrong time, such as right after a drop in the market or when interest rates—and therefore annuity payouts—are low. Purchasing an annuity on an installment basis over a period of years, an approach known as "laddering," can reduce timing risk. In practice, however, it can be difficult for individuals to make installment purchases of annuities.

## Rename Social Security claiming ages to clarify the implications of claiming benefits at different ages.

The Social Security Administration's (SSA) current terminology for Social Security claiming— calling age 62 the "early eligibility age," age 67 the "full retirement age," and monthly-benefit increases accrued between the ages of 67 and 70 "delayed retirement credits"—does not clearly reflect the impact of claiming age on monthly benefit amounts and can encourage eligible workers to claim benefits earlier than is optimal.

> In the 118th Congress, BPC Action endorsed the bipartisan Claiming Age Clarity Act (S. 4794), introduced by Sens. Bill Cassidy (R-LA), Chris Coons (D-DE), Susan Collins (R-ME), and Tim Kaine (D-VA), which would have directed SSA to refer to age 62 as the "minimum monthly benefit age," age 67 as the "standard monthly benefit age," and age 70 as the "maximum monthly benefit age."

BPC Action also endorsed S. 664, a bill to ensure that workers receive regular, personalized Social Security statements from SSA to enhance their understanding of the program, including the effect of claiming age on their expected monthly benefit amount.

### Repeal or reform the Social Security Retirement Earnings Test (RET).

SSA withholds $1 for every $2 earned above $23,400 (in 2025) for beneficiaries who have not reached the year of their full retirement age and $1 for every $3 earned above $62,160 in the year in which they reach FRA. These withheld benefits are returned as permanently increased payments beginning at FRA. However, many beneficiaries misunderstand the RET, mistakenly believing it causes a loss of benefits, which can lead them to suppress earnings or leave the workforce unnecessarily. Eliminating, easing, or even renaming (to something such as "Temporary Benefit Withholding") and clarifying the RET would facilitate longer careers, greater financial security, and enhanced economic growth.

## Improving How Congress Estimates the Cost of Retirement Expenditures

### *Direct the Congressional Budget Office and Joint Committee on Taxation to estimate retirement-related tax expenditures using a long-term approach based on the discounted net present value of projected revenue changes.

Currently, official budget estimates for retirement policy focus on the standard 10-year window, overstating the cost of tax deferrals by including deductions for contributions within the period while excluding future taxable withdrawals, and understating the cost of Roth accounts by ignoring significant tax-free withdrawals beyond the projection window. Precedent exists for this kind of change: The Federal Credit Reform Act, enacted in 1990, changed cost estimates for federal credit programs, such as federal student loans and some small business and farm credit programs, from a cash basis to a net-present-value basis.