INVESTMENT COMPANY INSTITUTE

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Finance Committee Chairman Introduces Retirement Bill to Modify Saver's Credit and Create R-Bond

[33700]

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TO: ICI Members
Pension Committee
Pension Operations Advisory Committee SUBJECTS: Pension
Tax RE: Finance Committee Chairman Introduces Retirement Bill to Modify Saver's Credit and Create R-Bond

On July 22, 2021, the Chairman of the Senate Finance Committee, Ron Wyden (D-OR), along with six other Senate Democrats,[1] reintroduced the "Encouraging Americans to Save Act" or EASA.[2] Among other provisions, the bill would reform the Saver's Credit by making it a refundable tax credit that is directly deposited into a retirement account.[3] EASA would also direct Treasury to establish an R-bond option, similar to the Obama-era myRA program. The summary provided by the bill sponsors touts the fact that "the legislation would offer matching contributions for the first time to millions of individuals not covered by an employer-sponsored retirement plan, including those who save through an IRA under a state or local government program—such as OregonSaves."

Overview of Bill

Changes to Existing Credit

EASA would amend the Saver's Credit by making it refundable, which allows taxpayers to receive the credit even if they have no income tax liability for the year.[4] Rather than allow the amount to be sent to the taxpayer as a tax refund, EASA would require that the credit be deposited directly into the taxpayer's Roth IRA, or a designated Roth account within a 401(k) (or a similar account) using the account number provided by the taxpayer.[5]

The maximum credit would continue to be 50 percent on contributions up to $2,000 per individual (resulting in a credit of $1,000 per individual). EASA would, however, modify the existing formula.

The 50 percent match would be available to:[6]

- individuals with income up to $32,500;
- taxpayers filing as a head of household with income up to $48,750; and
- married couples filing jointly with income up to $65,000.

The amount of the credit would phase out (to a minimum of a $100 credit):

- for individuals, at incomes above $32,500 and up to $42,500;
- for taxpayers filing as head of household, at incomes above 48,750 and up to $63,750; and
- for married couples filing jointly, at incomes above $65,000 and up to $85,000.

The income limits and the maximum contribution eligible for the credit would be indexed for inflation.

As under current law, the credit would continue to be available for contributions to ABLE Accounts.[7] For contributions to ABLE Accounts, the Saver's Credit would be deposited into the individual's ABLE Account.

Coronavirus Recovery Bonus Credit

EASA provides an additional bonus credit for retirement contributions made from 2023 through 2027. During these years, individuals who are eligible to receive the Saver's Credit will receive an additional 50 percent credit on the first $10,000 they contribute to a retirement account during this period, for a maximum "bonus" credit of $5,000. The Saver's Credit phase out rules also apply to the bonus credit.

Federal R-Bond Program as Default Investment

If an individual does not provide an account number (or provides an erroneous account number) to designate a plan or IRA to receive Saver's Credit, then the credit will be deposited automatically into a newly-established Roth R-bond account. EASA directs the Treasury Department to establish and maintain an R-bond program, investing in Treasury bonds, which would be similar to the Obama Administration's myRA program.[8] No fees would be charged to participants under the R-bond program.

In addition to receiving Saver's Credit contributions, the R-bond program would also accept IRA contributions (Roth or traditional) made by direct deposit, including direct deposit of Federal income tax refunds, and by methods that provide access for the unbanked. The R-bond program would not be permitted to accept rollover contributions, other than rollovers to consolidate multiple accounts established for the same individual. Individuals would be free to transfer amounts out of the R-bond program without penalty.

EASA authorizes the Treasury Department to issue rules and guidance to implement the R-bond program, including coordination rules "in connection with and in support of programs established under State and local laws that enroll residents in individual retirement plans."

EASA would require that the R-bond program provide certain disclosures (in paper form, unless the individual affirmatively elects to receive electronic statements). The annual account balance statements must include various statements, including

- an explanation that diversified investment opportunities which are not guaranteed by

the Federal government are available for individual retirement plans established by other providers;
- a statement that no fees are charged under the R-bond program;
- an illustration of the potential impacts that higher yields may have on long-term accumulation; and
- information on the types of fees that other providers may charge for the establishment of individual retirement plans, and the impact of fees on long-term accumulation.

The R-bond program would not incorporate the myRA provision that would automatically rollover myRA balances when they reach $15,000. Rather, if an individual's R-bond balance exceeds $15,000, the individual would be sent a notice requesting that the individual affirm that he or she does not want to roll over the account balance to another plan.

Promotion by Treasury; Reporting and Disclosure Requirements for Plans and IRAs

EASA directs the Treasury Department to educate taxpayers on the benefits of the refundable credit established by EASA, as well as the R-bond program.

It also requires the Treasury Department and the Department of Labor (DOL) to issue guidance to plan administrators regarding the Saver's Credit and R-bond program, requiring plans to provide certain information in plan disclosures, including summary plan descriptions, open enrollment materials and annual notices. The guidance must include model notice language deemed to satisfy these notice requirements.

EASA also directs Treasury and DOL to issue guidance to trustees and issuers of IRAs regarding the benefits of the Saver's Credit and the R-bond program for potentially eligible individuals and would require such information to be included in IRA disclosures.

EASA directs Treasury, DOL and the Pension Benefit Guaranty Corporation to amend the Form 5500 to require that plans report the aggregate amount of Saver's Credit contributions received by the plan during the year. Treasury must also amend the Form 5498 to require reporting of Saver's Credit contributions made to IRAs.

Deadline to Fund IRA with Tax Refund

EASA modifies the deadline for making a contribution to an IRA, to enable a taxpayer to direct an income tax refund into an IRA and receive the Saver's Credit on the contribution, with both amounts treated as contributed for the year of the tax return. Under current rules, a taxpayer can use a tax refund to fund an IRA; however, if the refund is not paid into the IRA by the due date of the tax return, then the contribution is treated as being made in the current year, rather than the year of the tax return.

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endnotes

[1] The other Senators cosponsoring the bill are Michael F. Bennet (D-CO), Bob Casey (D-PA), Dick Durbin (D-IL), Amy Klobuchar (D-MN), Robert Menendez (D-NJ), and Patty Murray (D-WA).

[2] The bill text is *available at* https://www.ici.org/system/files/2021-07/EASAbilltext.pdf. A summary of the bill is *available at* https://www.ici.org/system/files/2021-07/EASAonepager.pdf. The bill is largely the same as the bill introduced by Senator Wyden (with a similar group of cosponsors) in December 2020.

[3] A similar provision is included in the Retirement Security and Savings Act of 2021 recently introduced by Senators Cardin and Portman. *See* ICI Memorandum No. 33550, dated May 26, 2021, *available at* https://www.ici.org/memo33550.

[4] The current Saver's Credit provides low- and middle-income individuals with an incentive to save for retirement and can be used in conjunction with contributions to IRAs and employer-sponsored retirement plans (including 401(k) and 403(b) plans). The Saver's Credit currently provides a tax credit of up to 50 percent on contributions to an IRA or retirement plan, up to a maximum credit amount of $1,000 ($2,000 if married filing jointly). To receive the maximum credit, therefore, an individual must contribute $2,000 to a retirement account ($4000 for joint filers). The credit is currently phased out beginning at adjusted gross income of $35,900 for married taxpayers filing jointly and $19,750 for single taxpayers. The percentage credit is phased down to 20 percent and then 10 percent before going to zero.

[5] The bill confirms that 401(a), 403(b), and 457(b) plans will not be required to accept Saver's Credit contributions into the plan, but that if a plan does accept any Saver's Credit contributions, then it must accept them on a uniform basis.

[6] As under the current rules, individuals are eligible for the Saver's Credit if they are age 18 or older and are not claimed as a dependent on someone else's tax return. EASA would remove the additional current eligibility rule that full-time students cannot receive the credit.

[7] Under current law, the credit will only be available for contributions to ABLE Accounts until January 1, 2026. EASA does not carry over this sunset of this provision. The list of retirement accounts eligible for the credit is otherwise the same as under current law.

[8] For an overview of the myRA program, *see* ICI Memorandum No. 28593, dated December 18, 2014, *available at* https://www.ici.org/memo28593. In 2017, the Trump administration announced that it was winding down the myRA program due to the cost of the program relative to the low demand. *See* Treasury Department press release, dated July 28, 2017, *available at* https://home.treasury.gov/news/press-releases/sm0135.