

ICI VIEWPOINTS

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Congress Should Give Americans Flexibility to Keep Retirement Savings on Track

The COVID-19 pandemic has produced a tidal wave of economic challenges for millions of American families. Rising unemployment and surges of market volatility have washed away income and security. These challenges have forced many Americans to shift their financial priorities to address immediate concerns rather than longer-term goals, such as retirement savings. Many workers are temporarily unable to maintain their level of contributions in an employer-sponsored retirement savings plan or contribute to an individual retirement account (IRA). And some employers have reduced employer matching contributions—or stopped paying them altogether.

As policymakers take further steps to assist families and businesses weathering the storm, Congress can help American families get their retirement savings goals back on track by including the “Temporary Coronavirus-Related Catch-Up Contribution” proposal in the next COVID-19 relief package.

The proposal would allow workers who were adversely affected by COVID-19 to make additional contributions of up to \$6,000 annually—for three years beginning in 2021—to their retirement accounts, including their 401(k)s, 403(b)s, 457(b)s, SIMPLE plans, or IRAs. The proposal would be available to qualified workers regardless of age, and would permit employers to match their employees’ catch-up contributions.

As Americans return to work and shift their focus back to longer-term financial goals, this simple proposal gives workers and their families a powerful incentive to make up for any lost time in their retirement savings plan. The sooner workers can make up for lost contributions, the more their savings can compound exponentially.

This proposal has two key advantages. First, it makes the catch-up contribution opportunity available broadly to those who were negatively affected by COVID-19. While not every employer offers a 401(k) plan, any American worker can open a traditional IRA—and those harmed by COVID-19 can use an IRA to take advantage of this proposal.

Second, the three-year window for catch-up contributions gives workers who suffer longer periods of unemployment or reduced income the ability to participate, even if they are not able to shift their focus back to retirement savings for another year or two. And those with incomes that vary year to year can use the opportunity one year and not the next.

Additionally, the proposal aligns with other legislative efforts advanced by both Democrats and Republicans in Congress. For example, Senate Democrats offered a plan in 2017 to help increase retirement security for all workers by allowing them to permanently contribute an extra \$6,000 annually to their 401(k)s. There is also bipartisan legislation in the House right now that would allow those who take time off work to act as a caregiver for a family member to make catch-up contributions to their retirement accounts in years prior to age 50.

As Congress comes together to write the next COVID-19 relief package, I urge inclusion of the Temporary Coronavirus-Related Catch-Up Contribution proposal. It's a simple proposal that could make a big difference in the financial recovery plan of millions of American families who were harmed by COVID-19.

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