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Americans Would Save More for Retirement with Less Confusing Rules, June 1998

Americans Would Save More for Retirement with Less Confusing Rules
Washington, DC, June 4, 1998 - Policymakers considering ways to help Americans save more for retirement should consider simplifying the complex rules that govern certain retirement programs.

"Confusing rules make it less likely that individuals will participate in retirement programs and more costly for employers to offer retirement plans. History proves that saving incentives work best if the rules are simple and consistent," said Matthew P. Fink, President of the Investment Company Institute, the national association of the mutual fund industry.

Fink, a delegate to the two-day National Summit on Retirement Savings, which begins today in Washington, DC, said the mutual fund industry has urged that Congress take three steps to help Americans save more effectively for retirement:

- expand opportunities and strengthen incentives for individuals to save directly and through employer-sponsored plans;
- streamline certain cumbersome regulatory burdens that deter employers from offering retirement plans; and
- keep the rules simple and easy to understand.

Fink cited the rule changes associated with Individual Retirement Accounts as an example of how confusing regulations serve as a disincentive to saving.

When Congress introduced universal deductions for IRAs in 1982, IRA contributions rose from less than $4 billion in 1980 to approximately $38 billion in 1986. Moreover, three-quarters of all IRA contributions in 1986 were from families with annual incomes less than $50,000. When Congress restricted the deductibility of IRA contributions in the Tax Reform Act of 1986, the level of IRA contributions fell sharply and never recovered—to $15 billion in 1987 and $8.4 billion in 1995.

"The 1986 changes introduced a level of complexity into an otherwise simple and successful program that was inconsistent with the critical goal of promoting long-term savings," Fink said. "Today, the IRS needs 70 pages of explanations, examples, and worksheets to try to explain who is eligible for an IRA."

The mutual fund industry has long supported efforts to help individual Americans save for retirement in voluntary programs, such as the Individual Retirement Account, and employer-sponsored plans, such as the popular 401(k) plan.

In order to ensure that individuals have sufficient savings to support themselves in their retirement years, much of this savings will need to come from individual savings and employer-sponsored plans. "The challenge facing working Americans today is to ensure that they prepare adequately for their financial needs in retirement in addition to what Social Security will provide," Fink said.

The traditional IRA and the new Roth IRA remain excellent ways for many Americans to save. Policymakers can make both even better and help Americans save more for retirement by making the deductible IRA available to everyone; increasing the annual IRA contribution limit; removing or simplifying complex income limits on IRA eligibility; allowing Education IRA rollovers into Roth IRAs; and expanding Education IRA contribution amounts so that Americans start long-term saving as soon as possible.

Similarly, the formation of new employer-sponsored savings plans should be encouraged by simplifying the layers of overlapping rules and limitations imposed under current law. These rules have unnecessarily limited the ability of individuals to save through payroll deductions at work.

"In the end, focusing serious attention on how to simplify saving for retirement is one of the best investments the government can make," Fink said.

The Investment Company Institute is the national association of the American investment company industry. Its membership includes 7,024 open-end investment companies ("mutual funds"), 438 closed-end investment companies, and 9 sponsors of unit investment trusts. Its mutual fund members have assets of more than $5 trillion, accounting for approximately 95 percent of total industry assets, and more than 63 million individual shareholders.