NEW Research

Improving the Saver's Credit for Low- and Moderate-Income Workers

Issue Brief

Improving the Saver's Credit for Low-and Moderate-Income Workers

By Jennifer Erin Brown and David C. John

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NATIONAL INSTITUTE ON
Retirement Security
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Webinar

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Agenda

- Introductions
- Research Review
- Q&A

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- Attendees in listen only mode.
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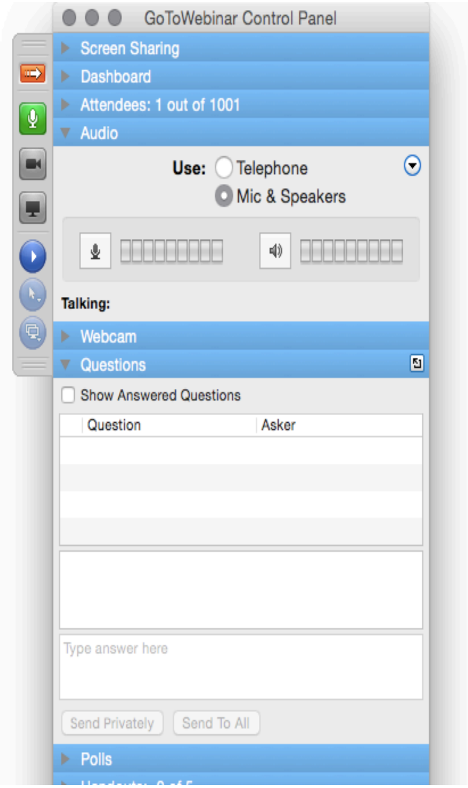

Speakers

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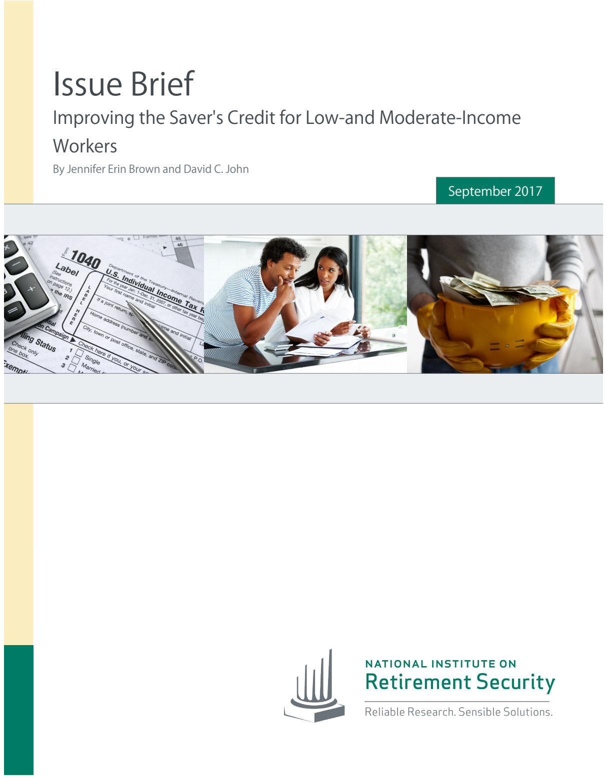
Why This Study?

- Saver's Credit designed to incentivize retirement savings for low- to moderate-income workers.

- But, millions of low-to moderate-income individuals have been unable to use the credit, leaving the credit underutilized.

- Saver's Credit should be improved to increase utilization and increase retirement security for workers.



Key Findings

1. Millions of low- & moderate-income workers unable to use Credit.

2. Credit is underutilized, even among those eligible to claim it.

3. Retirement plan coverage is key factor in Credit's underutilization.

4. A series of changes would enable more of the credit's target population to benefit from the Credit and build retirement savings.

Saver’s Credit: Background

- Due to the nature of the tax code, the distribution of retirement benefits is tilted towards higher earners.

- In 2001, as a way to level the playing field, Congress created the Saver’s Credit – a tax credit designed to encourage low- and moderate-income workers to saver for retirement.

Saver's Credit: Background, Cont.

Table 1: 2017 Saver's Credit Income Eligibility and Credit Rates

2017 Saver's Credit			
Credit Rate	**Married Filing Jointly**	**Head of Household**	**All Other Filers***
50% of your contribution	AGI not more than $37,000	AGI not more than $27,750	AGI not more than $18,500
20% of your contribution	$37,001-$40,000	$27,751-$30,000	$18,501-$20,000
10% of your contribution	$40,001-$62,000	$30,001-$46,500	$20,001-$31,000
0% of your contribution	more than $62,000	more than $46,500	more than $31,000

Source: Internal Revenue Service

Saver’s Credit: Background, Cont.

Requirements for the Saver's Credit

- Age 18 and over
- Not a full-time student
- Are not claimed as a depen-dent on another filer’s return
- Make less than $31,000 if single, or $62,000 if married
- Make a retirement contribu-tion to an Individual Retire-ment Account (IRA), 401(k), 403, or 457 plan.
- File a Federal Form 1040 or 1040A U.S. Individual Income Tax Return

Current Steps in Claiming the Saver’s Credit

- **Save for Retirement.** Contribute to an IRA or a 401(k), 403(b), or 457 plan.
- **Confirm You are Eligible: Income and Status.** You must make less than $62,000 if married and $31,000 if single.
- **Prepare and File Your Taxes Using a “Long-Form” 1040 or 1040A.**
- **Complete a Form 8880 to Calculate Amount of Saver’s Credit.**

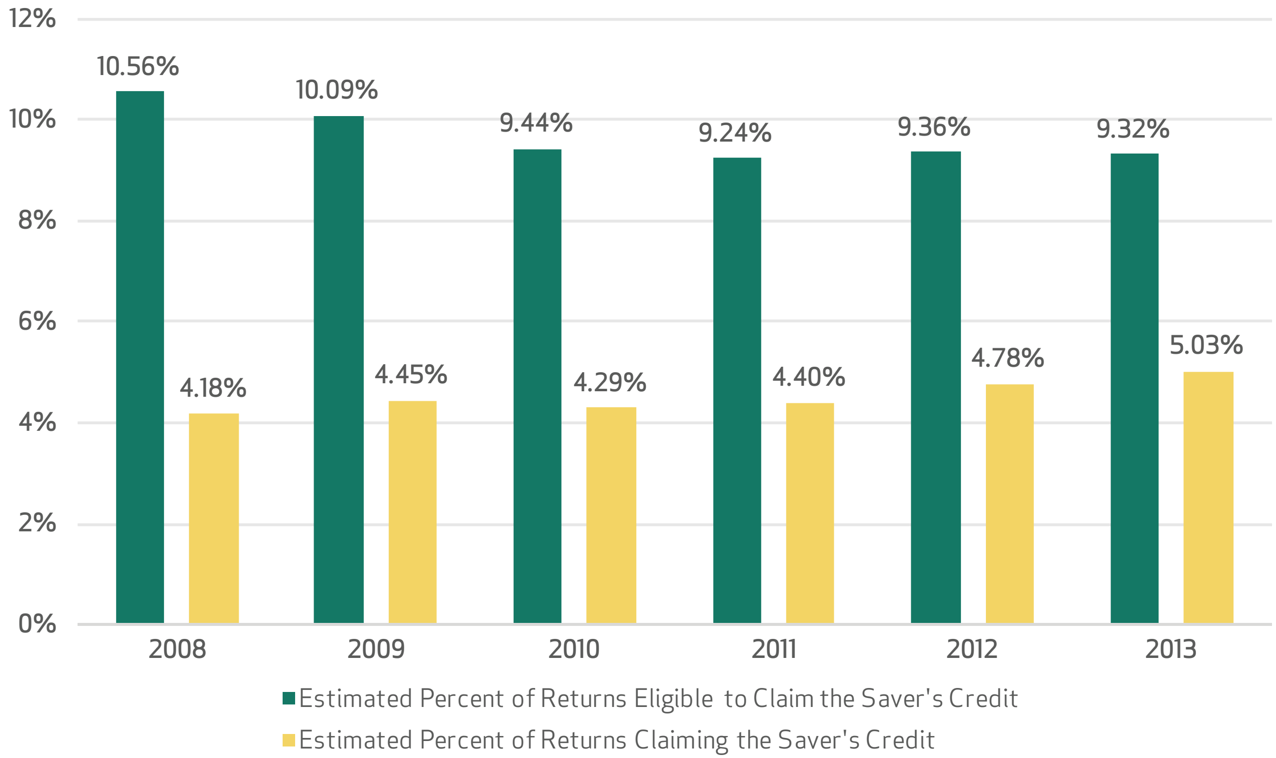
Finding #1: Millions Of Low- And Moderate-Income Workers Are Unable To Use The Saver's Credit

- Reasons include:
  - failure to contribute to a qualified retirement plan;
  - failure to file for the credit; or
  - insufficient tax liability

- These shortcomings, combined with a general lack of awareness of the credit among taxpayers, severely limits its use.

Finding #2: Saver's Credit Underutilized, Even Among Those Who Are Eligible To Claim It

Figure 1: Percent of Returns Eligible Compared with Returns that Actually Claimed the Saver's Credit, 2008 to 2013 Tax Years



Authors' calculations provided by data from the Internal Revenue Service, Statistics of Income Division.

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Finding #2: Saver's Credit Underutilized, Even Among Those Who Are Eligible To Claim It

Figure 2: Average Amount of the Saver's Credit, 2007 to 2014 Tax Years

Authors' calculations provided by data from the Internal Revenue Service, Statistics of Income Division.

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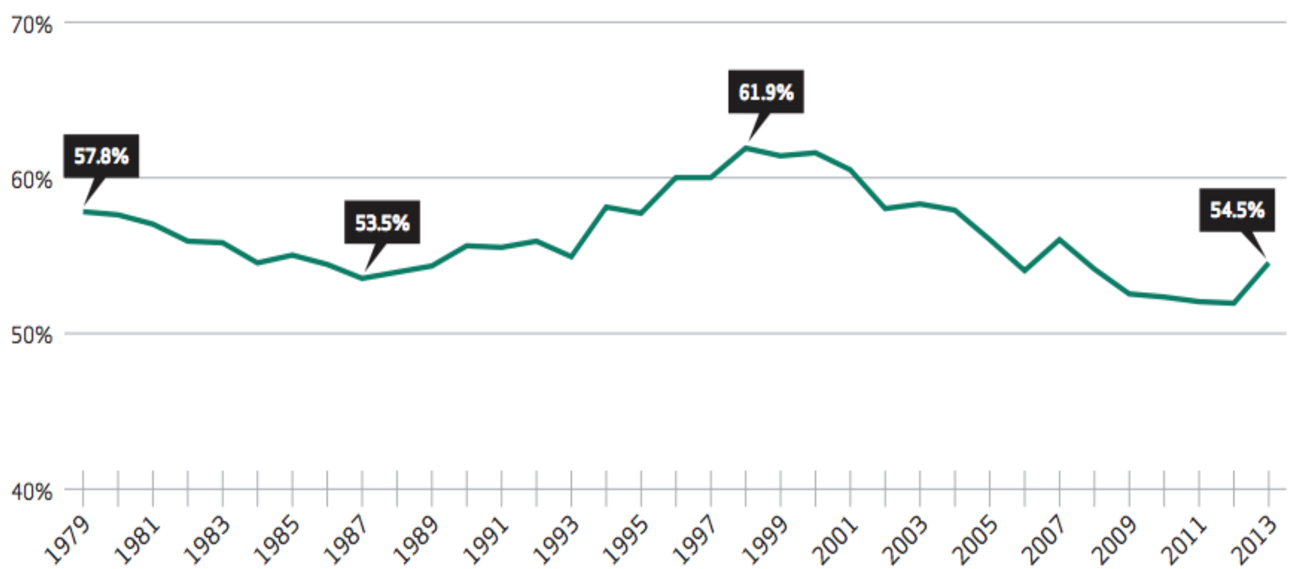
Finding #3: Retirement Plan Coverage Is A Key Factor In The Credit's Underutilization

- A key reason for underutilization is that many low- to moderate-income taxpayers do not make a contribution to a retirement savings plan, because they are not offered one by their employer through payroll deduction.

Percent of Private Sector Workers with Access to a Retirement Plan



Source: N. Rhee and I. Boivie. 2015. *The Continuing Retirement Savings Crisis*. National Institute on Retirement Security. Washington, DC

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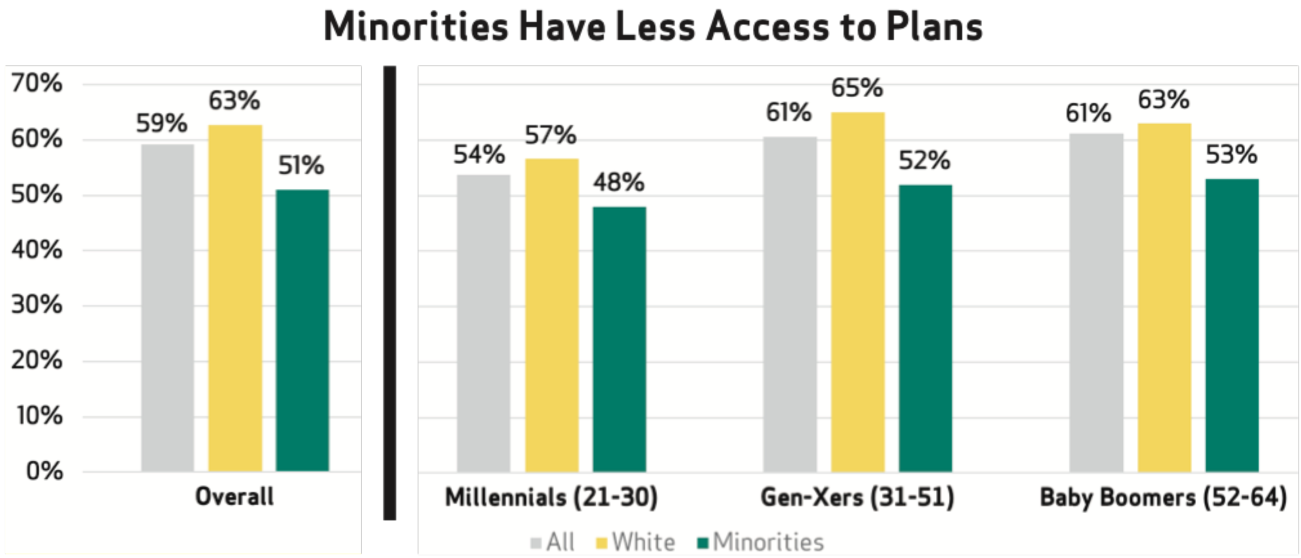
Finding #3: Retirement Plan Coverage Is A Key Factor In The Credit's Underutilization

- About 55 million workers between the ages of 18-64 lack access to an employer-sponsored retirement plan.
- Younger workers and minorities are most likely to work for an employer without a plan.



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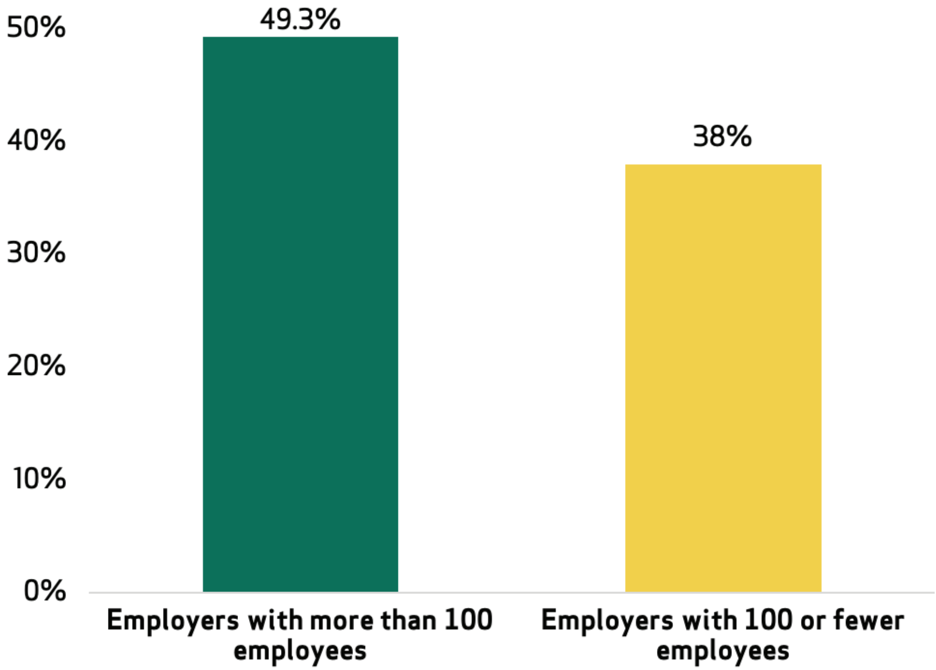
Finding #3: Retirement Plan Coverage Is A Key Factor In The Credit's Underutilization

- Small business employees are especially at risk.

Percent of Employees with Access to an Employer Sponsored Plan



Typical Small Business Employee Not Covered by a Plan

- Female
- Under 40
- A person of color
- Low and middle-income
- Single, not married

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Source: NIRS analysis of U.S. Census Bureau's Survey of Income and Program Participation 2008 Panel, Wave 11. (January 2012 - March 2012), universe limited to private, for-profit employees, aged 21-64.

Finding #4: A Series Of Changes Would Enable More To Benefit From The Credit And Build Savings

- As currently structured the Credit does not adequately help the low- and moderate-income individuals it was designed to assist. However, changes would enable more of the Credit's population to benefit and build more retirement savings.

- The changes include:
  1. Making the Saver's Credit a savings match;
  2. Making the Credit easier to claim;
  3. Increase eligibility to claim the Credit;
  4. Replacing cliff income limits with a gradual phase-out;
  5. Creating state tax benefits similar to the Credit.

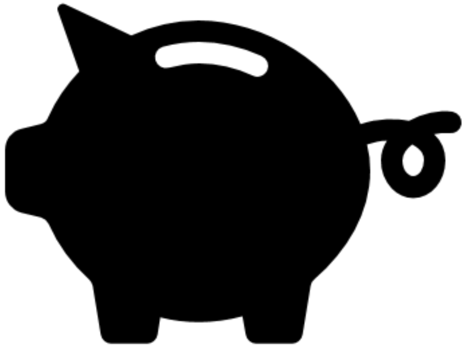
Proposal A: Make the Saver’s Credit A Savings Match

- Eligible savers would receive a match equal to 50 percent of the amount they contributed during that tax year.

- It would be claimed through their tax return and would go directly into their retirement savings account.

- The match would remain in the account until the saver reaches retirement age.

- The match would phase out gradually for higher incomes.



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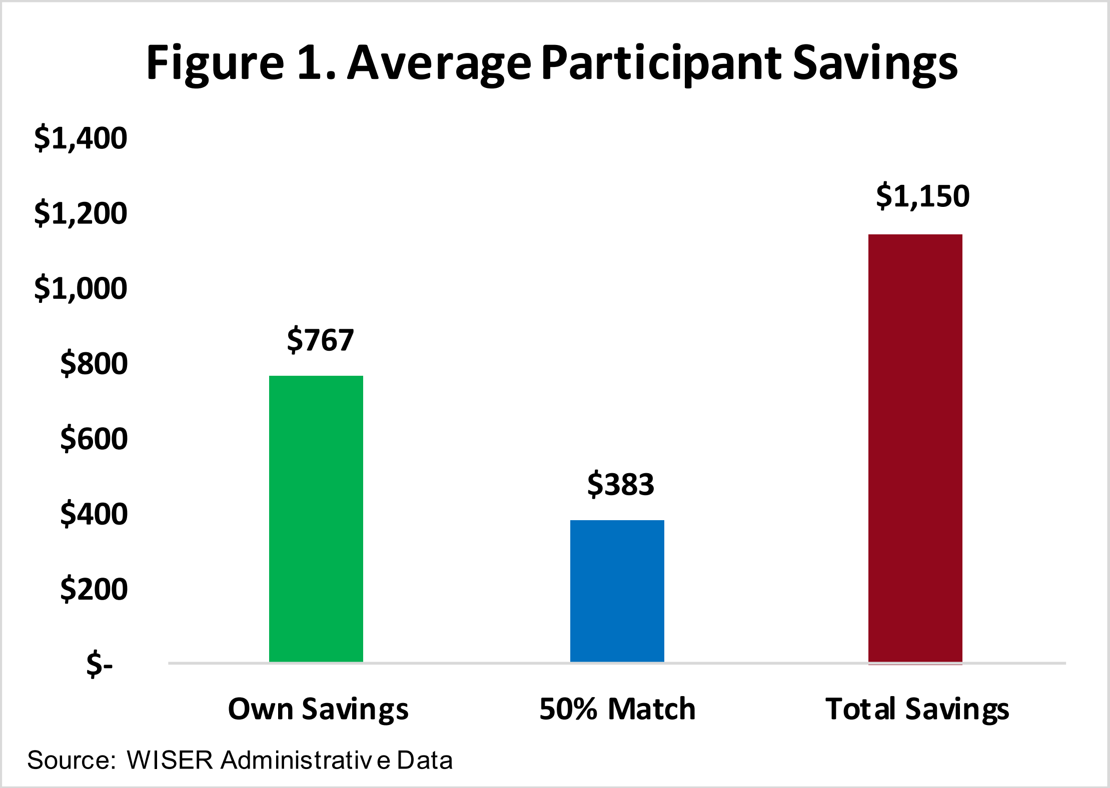
Proposal A: Make the Saver's Credit A Savings Match – A Case Study

- WISER developed the Appalachian Savings Project in Ohio and West Virginia.

- The Project simulated a refundable Saver's Credit by providing participants with a 50% savings match.



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Proposal B: Make It Easier To Claim The Saver's Credit

- Filers must jump through two hoops to file for the Credit
  1. Must file a long-form 1040 or 1040A
  2. Must complete Form 8880, which requires a look-back of three years.
- We should allow filers to claim the Credit on the 1040EZ form.
- We should mirror the filing requirements of the EITC, eliminating the Form 8880 filing and lookback, and allow individuals to complete a worksheet to file for the Credit.

Proposal C: Increase The Percentage Of Workers Who Are Eligible To Receive The Credit

- Increase income limits so more people would be eligible for Credit.

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50% of your contribution	AGI not more than $37,000	AGI not more than $27,750	AGI not more than $18,500
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10% of your contribution	$40,001-$62,000	$30,001-$46,500	$20,001-$31,000
0% of your contribution	more than $62,000	more than $46,500	more than $31,000

Source: Internal Revenue Service

Proposal D: Replace Cliff Income Limits With Gradual Phase-Out Of The Credit

- We should replace the three levels of credit based on exact-dollar income limits with one level that is phased out gradually.

Table 1: 2017 Saver's Credit Income Eligibility and Credit Rates

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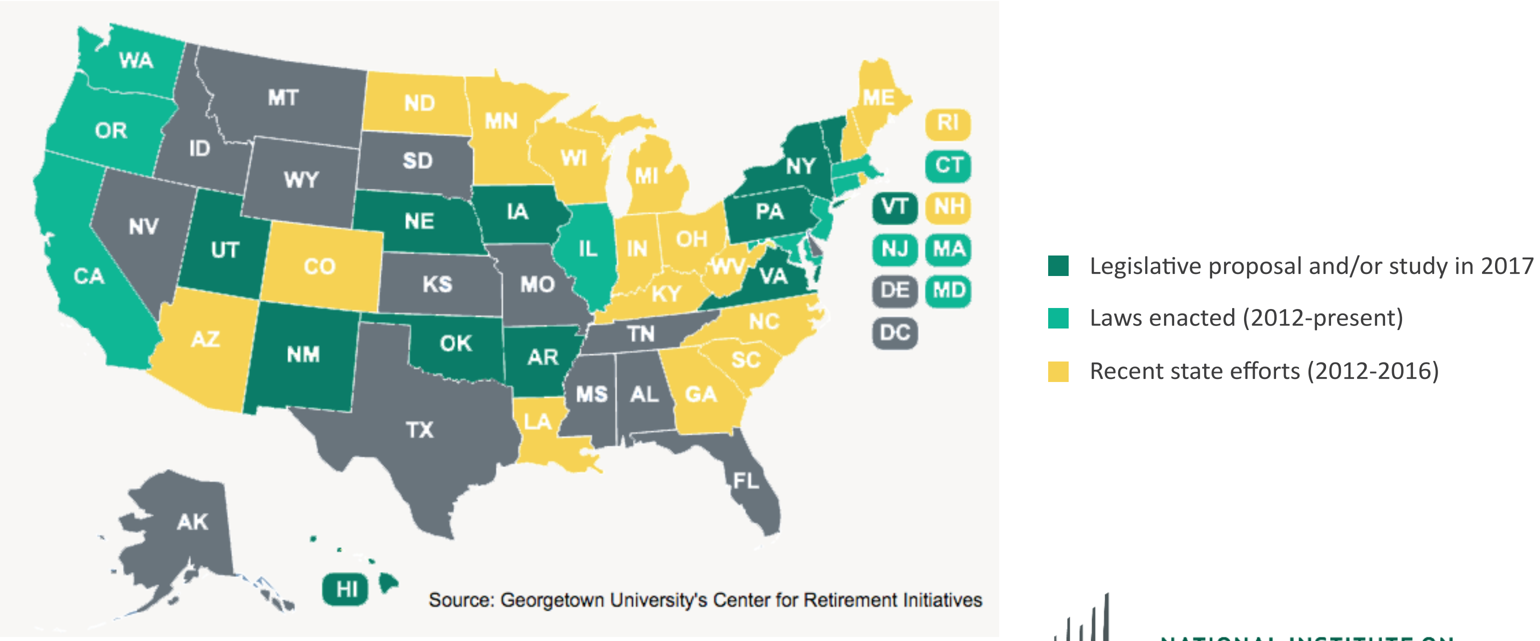
Source: Internal Revenue Service

Proposal E: Further Publicize The Saver's Credit

- State-sponsored retirement savings plans for small businesses will increase the opportunity for a greater number of eligible save to file for the Saver's Credit.
- All states should provide information to participants.



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Proposal F: Create State Tax Benefits Similar To The Federal Tax Credit

- States could create additional tax benefits that would be both on top of the federal Saver's Credit and linked to it such as:
  - $ 529 college savings plans
  - Maryland's Long-Term Care Credit
  - Indiana's Unified Tax Credit for the Elderly
  - Massachusetts' Real Estate Tax Credit
  - Montana's Elderly Homeowner/Renter Credit

Conclusions

- Existing Saver's Credit could do a better job helping the target population.
- Number of changes – especially *matching* – can increase Saver's Credit's utilization.
- Increased use of Saver's Credit can increase savings and thus, reduce potential future costs of the states and the federal government.

Fact Sheet

SAVER'S CREDIT AT-A-GLANCE

How the Saver's Tax Credit Can Boost Your Retirement Savings

The average retirement benefit from Social Security may not be enough to pay for your expenses during retirement. The federal government encourages low-income earners to save for retirement through a tax credit called the Saver's Credit. It is a non-refundable tax credit for individuals who make under $30,750 or married couples who make under $61,500 a year. Only 25 percent of those eligible for the Saver's Credit based on their income take advantage of the credit.

How Does the Saver's Credit Work?

The Saver's Credit can reduce the amount of taxes you owe the federal government when you save for retirement. Individuals who make less than $30,750 a year, and who save for retirement, can receive a credit of up to $1,000 on their federal income taxes. Married couples who file together and make less than $61,500 a year, can receive up to a $2,000 tax credit on their federal income taxes. The Saver's Credit can be worth 10 to 50 percent of the amount that you saved for retirement during the year. See the chart at the bottom of the page to find out how much your credit can be.

In order to be eligible for the Saver's Credit, you or your spouse must contribute to a retirement plan and meet other requirements. See the checklist to the right for list of other requirements and which retirement plans are eligible.

The Credit is non-refundable, meaning that it can only decrease the amount of federal taxes that you owe and cannot provide a refund. However, the Saver's Credit can be combined with other tax credits that can provide a refund, such as the Earned Income Tax Credit (EITC).

Requirements for the Saver's Credit

- Age 18 and over
- Not a full-time student
- Are not claimed as a dependent on another filer's return
- Make less than $30,750 if single, or $61,500 if married
- Make a retirement contribution to a myRA, Individual Retirement Account (IRA), 401(k), 403, or 457 plan.
- File a Federal Form 1040 or 1040A U.S. Individual Income Tax Return

2016 SAVER'S CREDIT

CREDIT RATE	MARRIED FILING JOINTLY	HEAD OF HOUSEHOLD	SINGLE
50% of your contribution	Income is less than $37,000	Income is less than $27,750	Income is less than $18,500
20% of your contribution	$37,001 - $40,000	$27,751 - $30,000	$18,501 - $20,000
10% of your contribution	$40,001 - $61,500	$30,001 - $46,125	$20,001 - $30,750
0% of your contribution	more than $61,500	more than $46,125	more than $30,750

SAVER'S CREDIT AT-A-GLANCE

Meet Tanya

Tanya is a single administrative assistant working in California who makes $25,000 a year.

She contributes $1,250 or 5% of her salary to a myRA.

Because her income is over $20,000 the chart on the first page indicates Tanya will receive a 10% credit or $125 on her federal income taxes when she flies for the Saver's Credit because of her retirement contribution.

Meet Luis and Christina

Luis and Christina are married and file their taxes together. Luis is a plumber in Maryland and earns $35,000 a year. Christina is not employed.

Luis contributes $1,500 to an IRA.

The chart on the first page tells us Luis and Christina could receive a 50 % tax credit or $750 because of Luis' IRA contribution when they file for the Saver's Credit on their federal tax form.

Saver's Credit + EITC = Refund

As mentioned on the first page, the Saver's Credit is non-refundable, meaning that it alone cannot provide you with a refund. But, taxpayers using the Saver's Credit along with the EITC and the Additional Child Tax Credit could receive larger refunds.

Apply the Saver's Credit to the amount of tax that you owe first – this reduces the amount of tax that you owe possibility to zero. Even if your Saver's Credit is larger than the amount of tax that you owe, you can only use the credit to lower the tax you owe to zero. But, by bringing the amount of taxes that you owe to zero, you can receive the full amount of your EITC or Additional Child Tax Credit, if they apply, as a refund. See the example of Aiden and Mia on the right.

How to File for the Saver's Credit

- **Save for Retirement.** Contribute to a retirement plan! See the Requirements the Saver's Credit on page one for eligible plan types.
- **Confirm your Income**. In order to claim the Saver's Credit, you must make less than $61,500 if married and $30,750 if single.
- **Prepare your Taxes.** Consider using a tax preparer such as VITA or AARP to assist you in preparing your taxes.
- **File a "Long-Form" 1040.** To take advantage of the Saver's Credit, you must you the use the Form 1040 or 1040A. You cannot use Form 1040EZ.
- **File a Form 8880.** You will need to fill out and file this form to calculate the amount of the Saver's Credit.

Meet Aiden and Mia

Aiden and Mia file their taxes together and have two children. Together, their income is $30,000. Mia is a private-school teacher and Aiden works part-time.

Mia contributed $900 to a retirement savings account through work, which makes Mia eligible for up to a 50% or $450 Saver's Credit, and the couple has a $4,438 credit from the EITC. They owe $40 in taxes and cannot claim the Additional Child Tax Credit.

By first applying the $450 Saver's Credit to the $40 in taxes that they owe, they reduce taxes to zero. Now their full $4,438 EITC, is paid to Mia and Aiden as refund because it is not reduced by the $40 in taxes that they owed.

2016 Taxes Owed	-	$40
Adjusted Saver's Credit	+	$40
2016 EITC	+	$4,438
Mia and Aiden's REFUND	+	$4,438

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