How States Can Utilize the Saver's Tax Credit to Boost Retirement Savings

The nation faces a massive retirement savings shortfall, as 45% of working-age households do not have any retirement savings. Due to this shortfall, states are pursuing new retirement programs that will allow millions of hard-working citizens to access their own retirement plans for the first time. In addition to improving the retirement preparedness of participants, these programs will now make millions of Americans eligibile for an under-utilized federal tax credit called the Saver's Credit.

How Does the Saver's Credit Work?

The Saver's Credit provides individuals who make less than $33,000 a year and save for retirement up to a $1,000 credit on their federal income taxes. Similarly, the Saver's Credit provides a married couple who makes less than $66,000 a year with up to a $2,000 credit on their taxes. The Saver's Credit can be worth 10 to 50 percent of the taxpayer's retirement contribution, depending on their income and retirement contributions.

The Saver's Credit is non-refundable, meaning that it only decreases a filer's tax liability to zero. But, the Saver's Credit can be combined with another refundable tax credit, such as the Earned Income Tax Credit or the Additional Child Tax Credit, to allow a filer to receive a refund.

The Saver's Credit provided a cumulative $1.4 billion in tax savings to roughly eight million taxpayers each year, even though the average tax credit from the Saver's Credit was only $166 in 2013. One reason more Americans do not qualify for the Saver's Credit is because most low-wage workers have never been offered a retirement account at work. But that's about to change because of new state retirement programs.

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 $33,000 a year if single, or $66,000 if married
- File a Federal Form 1040 or 1040A U.S. Individual Income Tax Return
- Make a retirement contribution to an IRA, 401(k), 403(b), 457 or 401(a) plan

2021 SAVER'S CREDIT

CREDIT RATE	MARRIED FILING JOINTLY	HEAD OF HOUSEHOLD	SINGLE
50% of your contribution	Income is less than $39,500	Income is less than $29,625	Income is less than $19,750
20% of your contribution	$39,501 - $43,000	$29,626 - $32,250	$19,751 - $21,500
10% of your contribution	$43,001 - $66,000	$32,251 - $49,500	$21,501 - $33,000
0% of your contribution	more than $66,000	more than $49,500	more than $33,000

Meet Tanya

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

She contributes 5% of her salary to the California Secure Choice plan, or $1,250.

Because of the Saver's Credit, Tanya will receive a tax credit of 10% of her retirement contribution, or $125 on her federal income taxes.

Meet Luis and Christina

Luis and Christina are married and file their taxes together. Luis is a plumber in Maryland and earns $30,000 a year. Christina is not employed.

Through the Maryland Secure Choice plan, Luis contributes $1,500 to a retirement savings account.

Because of the Saver's Credit, Luis and Christina will receive a tax credit of 50%, or $750 for his retirement contribution on their federal income taxes.

How Secure Choice Programs Plus the Saver's Credit Expand Retirement Savings

New state retirement programs are currently being considered or implemented in California, Connectcut, Illinois, Maryland, Massachusetts, and Oregon, among other states. These programs will expand the number of low- and moderate-income workers contributing to a retirement account. As a result, there will be substantially more Americans eligible for the Saver's Credit. The way these programs work is by automatically depositng 3-5% of a worker's salary into a retirement account administered by the state.

For example, in Illinois beginning in 2017, 1.2 million private sector workers who do not have access to a retirement plan can have 3% of their salary automatically deposited in a state-run Individual Retirement Account (IRA).

Not all workers will be eligible for the state program and some will opt-out. But, the vast majority of those who do partcipate will be eligible for the Saver's Credit due to their income and their contributons to a retrement account.

How Can States Encourage the Use of the Saver's Credit?

To ensure that these newly eligible taxpayers successfully claim the Saver's Credit, states should do all they can to spread the word about the credit and assist taxpayers with the filing process. This means:

- Providing information on the Saver's Credit on the state's Secure Choice website.
- Including information on the Saver's Credit in the state's Secure Choice enrollment materials.
- Reminding taxpayers about the Saver's Credit in their Secure Choice account statements.
- Sending out a special notice about the Saver's Credit at tax time.
- Publicizing free tax preparation programs, such as Volunteer Income Tax Assistance (VITA) Programs, in order for residents to file for the Saver's Credit.
- Engaging citizens through community outreach programs to encourage them to file for the Saver's Credit.
- Encouraging citizens to redeposit their Federal and state tax refunds into their IRAs.

Estimated Number of Individuals Who Will be Eligible for Both State Secure Choice Programs and the Federal Saver's Credit

CALIFORNIA
3.3 million individuals

CONNECTICUT
0.2 million individuals

ILLINOIS
0.7 million individuals

MARYLAND
0.4 million individuals

OREGON
0.3 million individuals

Authors' calculations using the Current Population Survey, Annual Social and Economic Supplement, 2015

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