

Letter to the Editor, Wall Street Journal: "Worrisome Savings Killer" in Budget Proposal

Letter to the *Wall Street Journal* on “Worrisome Savings Killer” in Budget Proposal

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Your editorial "Now He's After Your 401(k)" (April 12) correctly criticizes the impact of President Obama's proposed limit on the amount that individuals can save in tax-sheltered defined-contribution plans, defined-benefit plans and IRAs. This proposal would add needless complexity and confusion to our tax code and would discourage retirement savings.

But the president's budget contains another, even more worrisome savings killer: a proposal to cap the value of tax-deferred retirement contributions at 28%, which may be lower than your income-tax rate. The notion is that the benefits of tax deferral, like the benefits of deductions and exclusions, should be limited for taxpayers in the top brackets.

Tax deferral, however, is different. When you deduct your mortgage interest, you reduce your taxes in the current year, with no future impact. But when you defer taxes on a portion of your income today, you will pay taxes on that deferred income (and the investment returns it accrues) in retirement.

Proposals that limit the upfront tax benefit of deferrals substantially change the tax treatment of retirement contributions, in many cases making retirement accounts less attractive than saving in a regular taxable account. Ultimately, this would undermine retirement security for America's workers by reducing the incentives for businesses to provide retirement plans.

These changes claim to target "millionaires and billionaires," but their impact goes well beyond the top tax brackets. With the loss of employer plans, lower-paid workers would lose not just the benefits of tax deferral, but also the convenience of payroll deduction, the "nudge" of automatic enrollment and auto-escalation, employer matches, financial education and the regulatory protections that surround employer-based plans.

Yes, America faces severe budget and debt problems. But we need to fix these problems without weakening Americans' savings and retirement security.

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