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EBRI Research Shows Automatic Contribution Plan/Arrangement Provisions and an Enhanced Saver's Credit Could Materially Reduce Retirement Savings Deficits Across Races

Auto Portability results in an additional double-digit percentage improvement across the races studied

WASHINGTON – January 20, 2022 – A new study from the Employee Benefit Research Institute looks at how implementing some often-discussed changes to the retirement system can help reduce the size of retirement deficits and enhance the retirement security of Americans. Using EBRI's Retirement Security Project Model®, "Impact of Five Legislative Proposals and Industry Innovations on Retirement Income Adequacy" finds that for households projected to have a retirement deficit, combining Automatic Contribution Plan/Arrangement (ACPA) provisions with an enhanced Saver's Credit would reduce retirement savings shortfalls by 17 to 26 percent, depending on race.

This scenario generally requires employers with more than five employees to maintain ACPA, with a few exceptions for grandfathered plans. In addition, the existing Saver's Credit would be replaced with a simple, 50 percent government match on 401(k)- and IRA-type contributions of up to $1,000 per year, under certain conditions.

The study also examined adding retirement plan employer matching contributions for student loan debt repayments or using the "Skinny" 401(k) for ACPA. The latter would involve replacing the auto-IRA feature with a simplified form of 401(k) plan. These modifications also reduced retirement deficits—but by smaller amounts.

The addition of auto portability of retirement accounts resulted in a further double-digit reduction in savings shortfall across all races examined. Under this scenario, a participant's account from a former employer's retirement plan would be automatically combined with their active account in a new employer's plan. This would help keep the defined contribution assets in the retirement system and — in theory — eliminate leakage from cash-outs upon employment termination.

"U.S. households ages 35-64 are on track to face an aggregate retirement savings shortfall of $3.68 trillion," said Jack VanDerhei, EBRI Research Director and author of the report. "This research shows that provisions such as ACPA and an enhanced Saver's Credit can significantly reduce that deficit across races. However, we see the greatest improvements when it comes to net retirement savings outcomes—which include both decreased savings deficits and increased savings surpluses—of Black and Hispanic workers. This is an important finding for those searching for parity in retirement security for all Americans."

"Impact of Five Legislative Proposals and Industry Innovations on Retirement Income Adequacy" is available at https://www.ebri.org/legislative-proposals.

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