ebri.org
Employee Benefit
Research Institute

Advisory from EBRI

1100 13th St. NW • Suite 878 • Washington, DC 20005
(202) 659-0670 • www.ebri.org • Fax: (202) 775-6312

IMPACT OF A RETIREMENT SAVINGS CAP

Jan. 20, 2015

NOTE: With President Obama's State of the Union address tonight expected to include his earlier proposal to impose a retirement savings cap, EBRI is re-releasing its 2013 analysis showing who would be affected – and how – if the proposal became law.

EBRI's analysis shows significant numbers of workers would be affected, especially over time and if interest rates return to their historical levels. The original news release, with link to the full report, is below:

++

August 6, 2013

Contact: **Stephen Blakely, EBRI:** 202/775-6341, blakely@ebri.org
Jack VanDerhei, EBRI (author): 202/775-6327, vanderhei@ebri.org

New Research from EBRI:

Proposed Retirement Savings Cap Could Have Big Impact

WASHINGTON—The Obama administration's proposal to cap tax-favored retirement savings plans could affect significant numbers of workers should interest rates return to their historically higher levels, according to a new analysis by the nonpartisan Employee Benefit Research Institute (EBRI).

Using its proprietary Retirement Security Projection Model,® EBRI's simulation results for 401(k) participants (assuming no defined benefit accruals and no job turnover) show that more than 1 in 10 current 401(k) participants are likely to hit the proposed cap sometime prior to age 65, even at the current, albeit historically low, discount rate of 4 percent.

When the simulation is rerun with higher discount rate assumptions closer to historical averages, the percentage of 401(k) participants likely to be affected by these proposed limits increases substantially.

"While relatively few 401(k) participants would be affected by this at first, the impact would likely spread over time, perhaps substantially, depending on interest rates and whether individuals also participate in a defined benefit retirement plan," said Jack VanDerhei, research director at EBRI and author of the study.

The Obama administration's FY 2014 budget proposal included a cap on tax-deferred retirement savings that would limit the amounts accumulated in specified retirement accounts to that necessary to provide the maximum annuity permitted for a tax-qualified defined benefit plan under current law.

The maximum annuity permitted for a tax-qualified defined benefit plan is currently an annual benefit of $205,000 payable in the form of a joint and 100 percent survivor benefit commencing at age 62. This would translate to a maximum permitted accumulation for an individual age 62 of approximately $3.4 million at the interest rates prevailing when the proposal was released in April 2013, the EBRI study notes.

As part of the effort to reduce the federal deficit, the Obama administration's Fiscal Year 2014 budget proposal would potentially limit the ability to make additional contributions (at least temporarily) to a wide range of tax-advantaged retirement plan vehicles, including:

Individual retirement accounts (IRAs).
Sec. 401(a) plans (tax-advantaged retirement plans, including 401(k)s), and Sec. 403(b) tax-sheltered annuity plans.
Funded Sec. 457(b) arrangements maintained by governmental entities.

If enacted by Congress, the Obama administration's proposal would be effective with respect to contributions and accruals for taxable years beginning on or after Jan. 1, 2014.

EBRI's analysis also considered the potential impact on workers with an assumed defined benefit plan providing 2 percent, three-year, final-average pay benefits, with a subsidized early retirement at 62, and found that nearly a third are projected to be affected by the proposed limit, at an 8 percent discount rate.

Additional analysis is performed for small plans (those with less than 100 participants) to assess the potential impact of eventual plan terminations if and when the owners and/or key decision makers of the firms reach the cap threshold. Depending on plan size, this may involve as few as 18 percent of the firms (at a 4 percent discount rate) or as many as 75 percent of the firms (at an 8 percent discount rates).

Full results of the analysis are published in the August 2013 *EBRI Issue Brief,* "The Impact of a Retirement Savings Account Cap," available online here.

The Employee Benefit Research Institute is a private, nonpartisan, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. The work of EBRI is made possible by funding from its members and sponsors, which includes a broad range of public, private, for-profit and nonprofit organizations. For more information go to www.ebri.org or www.asec.org

###