

For Immediate Release: July 11, 2011

Contact: Tracey Young, EBRI (media relations), 202/775/6329, young@ebri.org
Jack VanDerhei, (author of the report), 202/775/6327, vanderhei@ebri.org

New Research from EBRI:

**Capping Tax-Preferred 401(k) Contributions Would Hurt
Both Highest- and Lowest-Income Workers**

WASHINGTON—A new analysis from the nonpartisan Employee Benefit Research Institute (EBRI) finds that the National Commission on Fiscal Responsibility and Reform proposed tax reform for 401(k)-type retirement plans would cause the greatest reduction in retirement savings for both the highest- and lowest-income workers.

EBRI's research finds the Commission's recommendation to cap the annual tax preferred contributions to (the) lower of \$20,000 or 20 percent of income" for 401(k)-type plans (known as the "20/20 cap) starting in 2012 would most affect the highest-income workers—not surprising, since those with high income tend to save the most in these kinds of retirement plans. However, EBRI also found the cap would cause a big reduction in retirement savings by the lowest-income workers as well.

The analysis finds that for each age group (except for the oldest), the lowest-income group has the *second-highest* average percentage reductions in 401(k) contributions. Primarily, this is because their current or expected future contributions would exceed 20 percent of compensation when combined with employer contributions.

"Phrased another way, the 20/20 cap would, as expected, most affect the highest-income workers, but it also would cause a very big reduction in retirement accumulations for the lowest-income workers," said Jack VanDerhei, EBRI research director.

Currently, the combination of both worker and employer 401(k) contributions is the lesser of a dollar limit of at least \$49,000 per year, or 100 percent of an employee's compensation.

The results are from EBRI's Retirement Security Project Model™ and are published in the July 2011 *EBRI Notes*, "Capping Tax-Preferred Retirement Contributions: Preliminary Evidence of the Impact of the National Commission on Fiscal Responsibility and Reform Recommendations," available online at www.ebri.org The analysis breaks down results by age group and by relative income group.

The Employee Benefit Research Institute (EBRI) is a private, 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.

###

PR #932