

### The Saver's Credit: A Tax Credit to Promote Retirement Security

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Fewer than half of U.S. workers are aware of the saver's credit, a tax credit available to low- to moderate-income taxpayers who contribute to tax-advantaged accounts. Transamerica Institute CEO and President Catherine Collinson shares how this credit can play an even greater role in helping people save for retirement.

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Did you know the IRS has a tax credit that pays people to save for retirement?

If not, you are not alone.

Fewer than half of U.S. workers are aware of the [saver's credit](#), a tax credit available to low- to moderate-income taxpayers who contribute to tax-advantaged accounts, according to findings from a new [research report](#) led by my team at Transamerica Center for Retirement Studies® (TCRS) in collaboration with [Transamerica Institute](#)®.

As our nation is confronting major concerns about retirement security amid relatively low levels of retirement savings and the estimated depletion of the [Social Security trust funds](#) in 2034, the saver's credit can play an even greater role in helping people save for retirement.

### What is the Saver's Credit?

The saver's credit, referred to as the Retirement Savings Contributions Credit by the IRS, is a tax credit above and beyond the tax-favored treatment of retirement accounts. It may be applied to the first \$2,000 of voluntary contributions that an eligible taxpayer makes to a 401(k), 403(b), or similar employer-sponsored retirement plan; a traditional or Roth IRA; or an ABLÉ account in the past year.

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The maximum credit is \$1,000 for single filers or individuals and \$2,000 for married filing jointly. The amount of tax credit is 50%, 20%, or 10% of the taxpayer's contributions to qualified accounts for the year, and the percentage also depends on their income.

The adjusted gross income limits for 2022 tax year are:

- \$34,000 for single tax filers.
- \$51,000 for heads of households.
- \$68,000 for those who are married filing jointly.

Additionally, the taxpayer must be age 18 or older, cannot be a full-time student, and cannot be claimed as a dependent on another person's tax return. Importantly, the saver's credit is not refundable, meaning that the taxpayer can only receive the credit up to the amount of their tax liability.

The IRS offers an [online tool](#) to help determine if you are eligible for the credit.

## History of the Saver's Credit

The saver's credit was established with the enactment of the Economic Growth and Tax Reconciliation Relief Act of 2001 and made permanent with the Pension Protection Act of 2006, both laws being the culmination of long-standing bipartisan efforts to improve retirement security. The saver's credit was the first major legislation focused on promoting tax-qualified retirement savings among low- to moderate-income workers.

According to TCRS' analysis of the [IRS Statistics of Income](#), the number of tax filers claiming the saver's credit has increased steadily to 9.6 million in 2019—the most recent year in which IRS data is available—from 5.3 million in 2002. In 2019, 6.1% of all tax filers and 9.3% of tax filers with taxable returns claimed the credit. The average credit amount was \$191. Note that data is not available to accurately estimate the number of tax filers who may have been eligible to claim the credit.

Since its inception, policy experts have pointed out that the number of people benefiting from the credit is limited because it is not refundable, meaning that the amount of the credit cannot exceed a tax filer's tax liability—and many low- to moderate-income workers have little or no tax

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liability. TCRS agrees with this assessment but also believes that many eligible workers may be missing out on the saver's credit simply because they are unaware of it.

## The Imperative for Raising Awareness

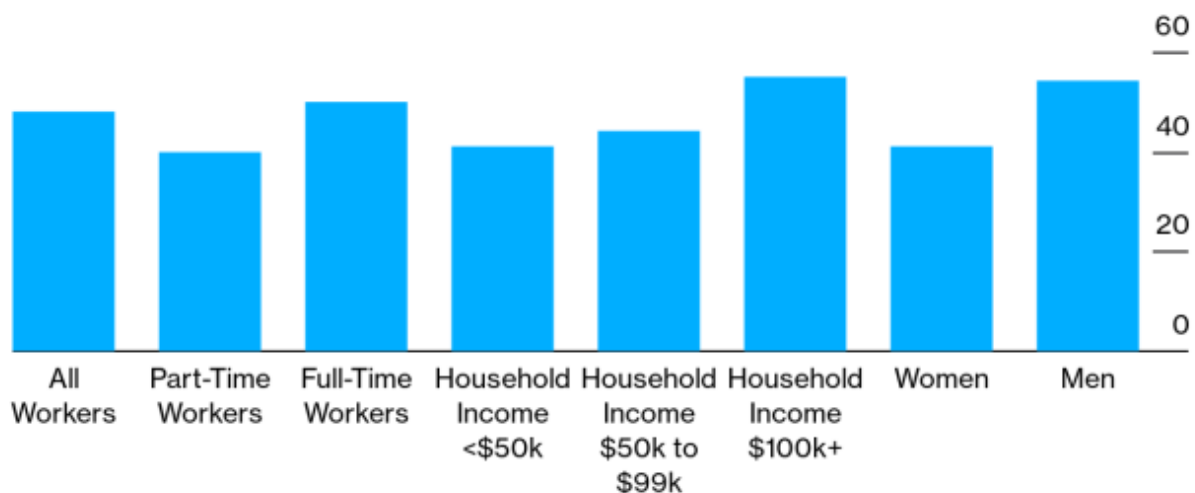
Without widespread awareness, eligible people who are saving for retirement may unwittingly overlook the saver's credit when preparing their tax returns. Among those who are not yet saving, learning about the saver's credit might be the nudge to get them started.

According to TCRS' survey findings, awareness of the credit among workers employed by for-profit companies has risen to 48% in 2021 from 23% in 2007. However, recent survey findings have surfaced major disconnects among segments of this population.

Low- to moderate-income workers—the credit's intended beneficiaries—are less likely to be aware of it. In 2021, only 41% of workers with an annual household income—or HHI—of less than \$50,000 were aware of the credit, compared with 55% of workers with an HHI of \$100,000 or more. Part-time workers (40%) and women (41%) were also less likely to be aware of it.

### Knowledge of Savings Potential Varies

Percentage of workers aware of the saver's credit



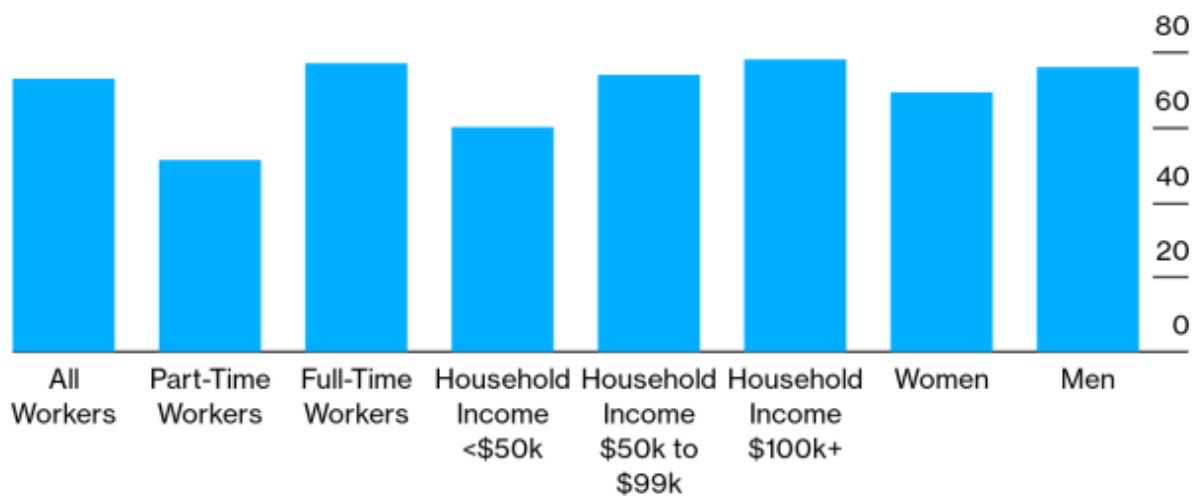
Source: Transamerica Center for Retirement Studies  
22nd Annual Retirement Survey of Workers, 2021

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Employer-sponsored workplace retirement plans have proven to be the most effective way to engage workers to save for retirement—and to make them eligible to potentially benefit from the saver’s credit. According to the same survey findings, almost three out of four workers (73%) are offered a 401(k) or similar plan. Yet only 51% of part-time workers, 60% of workers with an HHI of less than \$50,000, and 69% of female workers are offered a plan.

## Employer Plans Effective in Getting Workers to Save for Retirement Percentage of workers who are offered a 401(k) or similar plan by their current employer



Source: Transamerica Center for Retirement Studies  
22nd Annual Retirement Survey of Workers, 2021

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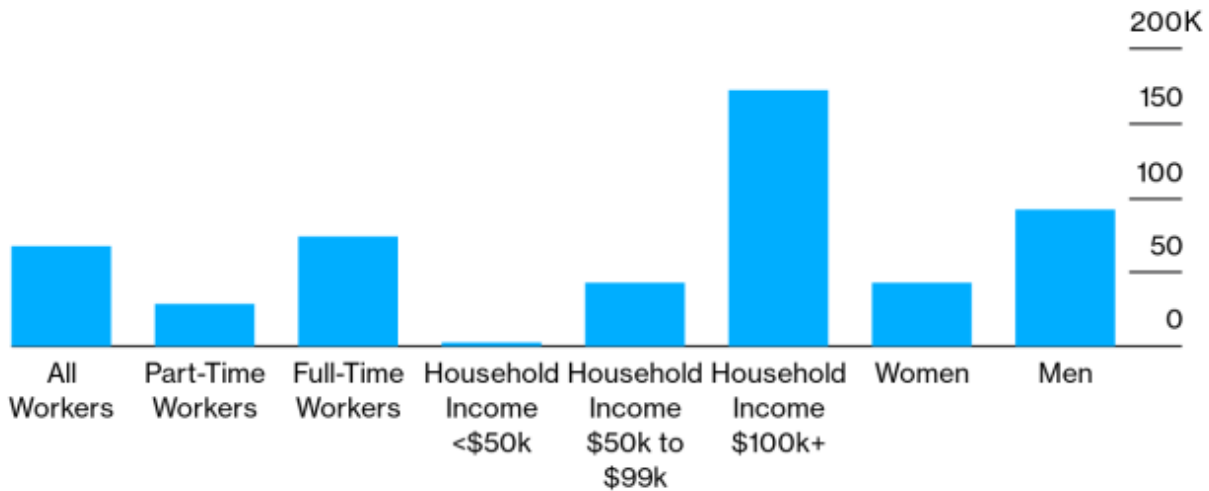
These disparities and other contributing factors translate to stark differences in retirement savings among at-risk segments and illustrate the helpful role the saver’s credit can play in promoting savings.

TCRS found that workers with an HHI of less than \$50,000 have saved \$3,000 in all household retirement accounts, compared with savings of \$172,000 among those with an HHI of \$100,000 or more (estimated medians). Furthermore, part-time workers report having saved less than half that of full-time workers, and women’s retirement savings continue to be a fraction of that of men.

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## Differences in Retirement Savings Among At-Risk Segments

Estimated medians of workers' total household savings in retirement accounts



Source: Transamerica Center for Retirement Studies  
22nd Annual Retirement Survey of Workers, 2021

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## Enhancing and Expanding the Saver's Credit

Policymakers are currently considering bipartisan retirement legislation and contemplating a variety of reforms that can enhance the reach and effectiveness of the saver's credit, and they should be applauded for their efforts. TCRS encourages them to consider the following recommendations that could help more Americans benefit from the credit and improve their retirement outlook:

- Implementing educational campaigns to promote the saver's credit and how to claim it.
- Making the saver's credit refundable so that all retirement savers who meet the income limits and other eligibility requirements, regardless of whether they have a tax liability, can fully benefit.
- Simplifying and collapsing the current three credit rates—i.e., 50%, 20%, and 1%—within the income requirements into a single credit rate of 50%.
- Increasing the income eligibility limits so that more workers can benefit from the credit.

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- Eliminating the non-income-related eligibility requirement—i.e., must be 18 or older, cannot be a full-time student, and cannot be claimed as a dependent on another’s tax return.

In addition to public policy efforts, we can all help promote the saver’s credit through a grassroots effort by telling our families, friends, and colleagues about it. By spreading the word, we can make a significant difference in people’s lives and in our community’s future well-being.

*This article does not necessarily reflect the opinion of The Bureau of National Affairs, Inc., the publisher of Bloomberg Law and Bloomberg Tax, or its owners.*

## Author Information

**Catherine Collinson** serves as CEO and president of nonprofit Transamerica Institute and its operating division Transamerica Center for Retirement Studies, and she is a champion for Americans who are at risk of not achieving a financially secure retirement.

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