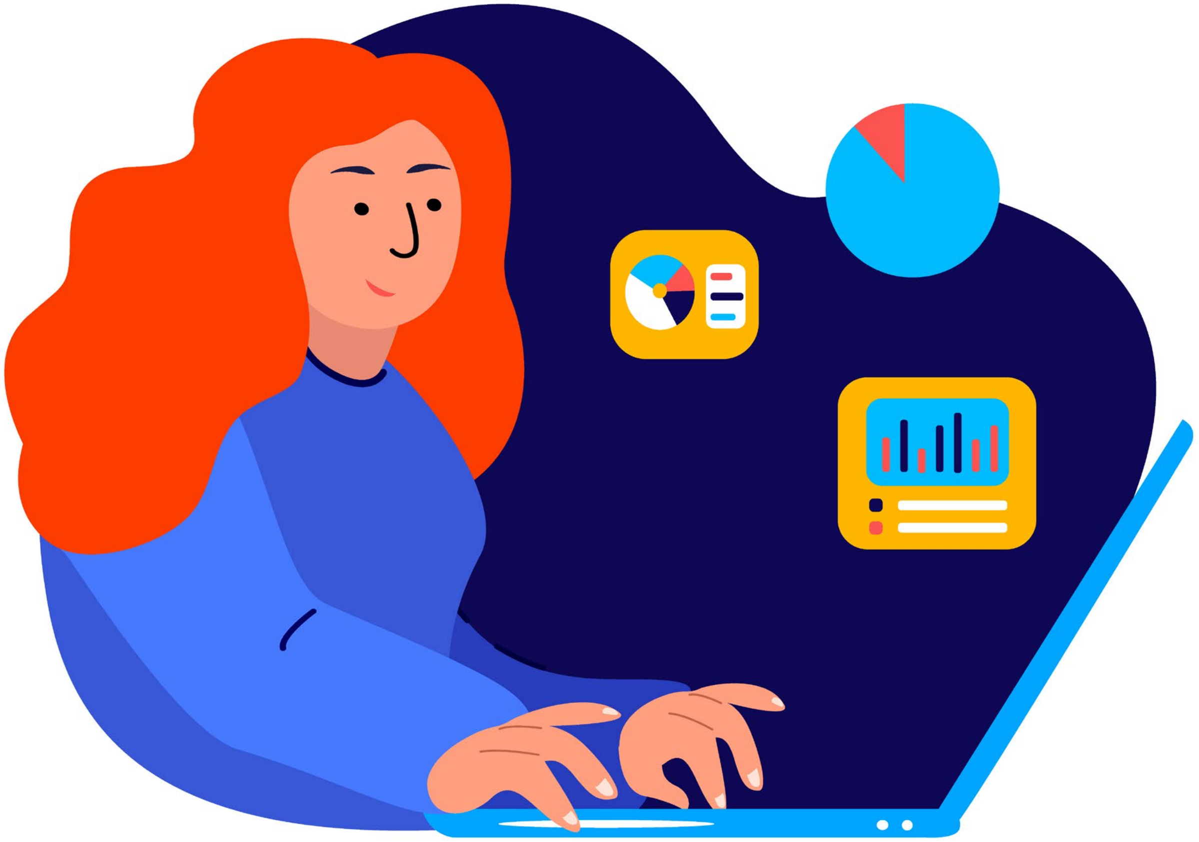

The Saver's Credit: A Tax Credit That Pays to Save for Retirement

22nd Annual Transamerica Retirement Survey

April 2022

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About the Author

Catherine Collinson serves as CEO and president of Transamerica Institute®, a nonprofit private foundation which includes Transamerica Center for Retirement Studies®. She is a champion for Americans who are at risk of not achieving a financially secure retirement. Catherine oversees all research, publications, and outreach initiatives, including the Annual Transamerica Retirement Survey.

With more than two decades of experience, Catherine is a nationally recognized voice on retirement trends for the industry. She has testified before Congress on matters related to employer-sponsored retirement plans among small business, which featured the need to raise awareness of the Saver's Credit among those who would benefit most from the important tax credit.

In 2018, Catherine was named an Influencer in Aging by PBS' Next Avenue. In 2016, she was honored with a Hero Award from the Women's Institute for a Secure Retirement (WISER) for her tireless efforts in helping improve retirement security among women. Catherine serves on the Advisory Board of the Milken Institute's Center for the Future of Aging. She co-hosts the *ClearPath: Your Roadmap to Health & Wealth℠* podcast on Baltimore's WYPR, an NPR news station.

Catherine is employed by Transamerica Corporation. Since joining the organization in 1995, she has held a number of positions with responsibilities including the founding of Transamerica Center for Retirement Studies as a nonprofit private foundation in 2007 and its expansion into Transamerica Institute in 2013.

About Transamerica Center for Retirement Studies®

- Transamerica Center for Retirement Studies® (TCRS) is an operating division of Transamerica Institute®, a nonprofit, private foundation. TCRS is dedicated to educating the public on trends, issues, and opportunities related to saving and planning for retirement and achieving financial security in retirement. It conducts one of the largest and longest-running annual retirement surveys of its kind. www.transamericainstitute.org

- Transamerica Institute is funded by contributions from Transamerica Life Insurance Company and its affiliates.

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- Although care has been taken in preparing this material and presenting it accurately, TCRS disclaims any express or implied warranty as to the accuracy of any material contained herein and any liability with respect to it.

About the Report

- This report includes a Transamerica Center for Retirement Studies' (TCRS) analysis of the IRS Statistics of Income to identify take-up-related trends of the Saver's Credit, as well as findings from its surveys of workers and employers.
- Since 1998, TCRS has conducted a national survey of U.S. business employers and workers regarding their attitudes toward retirement. The overall goals for the study are to illuminate emerging trends, promote awareness, and help educate the public. It has grown to be one of the longest-running and largest national surveys of its kind.
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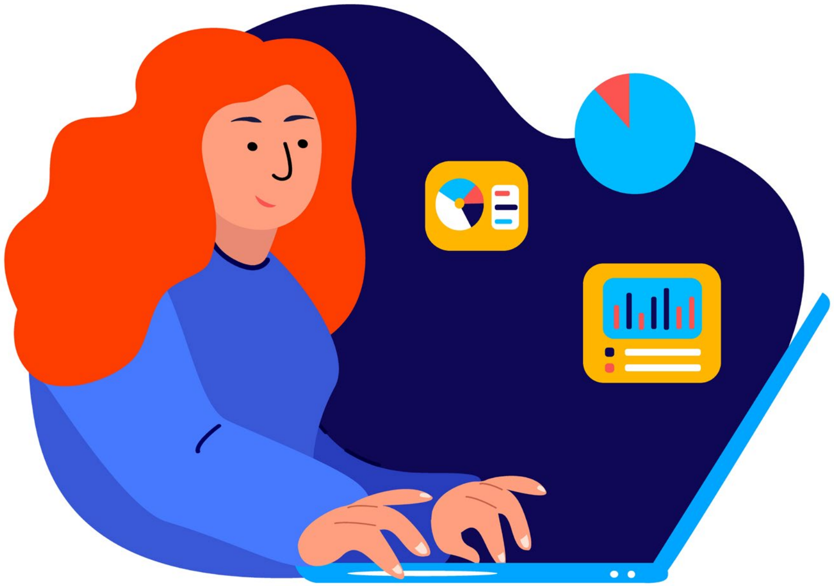
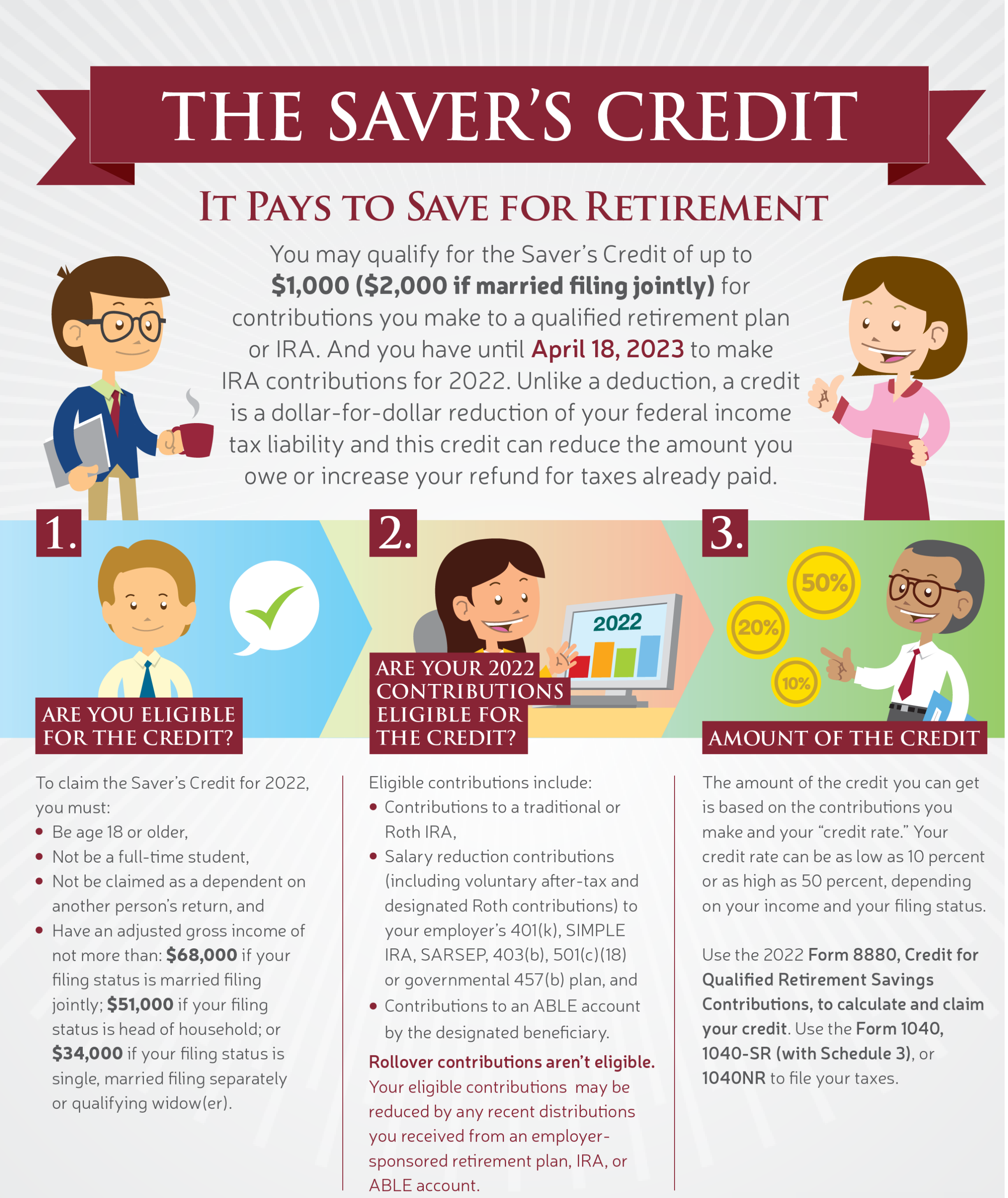
Introduction

The Saver's Credit represents the first piece of major legislation focused on promoting tax-qualified retirement savings among low- to moderate-income workers. It was established with the enactment of the Economic Growth and Tax Reconciliation Relief Act of 2001 and made permanent in the Pension Protection Act of 2006, both laws resulting from bipartisan collaborations to improve retirement security. The Saver's Credit, also 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.

Twenty years after its establishment, the Saver's Credit has enjoyed success, but it could be even more successful with ongoing promotion and the implementation of policy reforms for its expansion.



As policymakers actively engage in continued bipartisan efforts focused on improving retirement security, Transamerica Center for Retirement Studies (TCRS) has prepared this report to share trends, insights, and recommendations for promoting, enhancing, and expanding the Saver's Credit.



Saver's Credit Snapshot

Eligibility Requirements

- Age 18 or older
- Not a full-time student
- Not claimed as a dependent on another person's tax return
- 2022 income (AGI) limits:
  - $68,000 Married Filing Jointly
  - $51,000 Head of Household
  - $34,000 Single
- Must have a tax liability because it is non-refundable

Credit Rate: 50%, 20%, or 10%

Tax Forms: Form 8880, and Form 1040, 1040-SR, or 1040-NR (with Schedule 3)

Who Is More Likely to Benefit?

- Lower-income workers
- Part-time workers
- Women

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Saver's Credit Historical Trend Analysis

A TCRS analysis of the IRS Statistics of Income (SOI) for the tax years from 2002, when the Saver's Credit became available, finds that the number of U.S. tax filers claiming the credit increased from 5.3 million in 2002 to 9.6 million in 2019 (the most recent year the IRS SOI data is available).

The percentage of tax filers claiming the credit also increased from 4.1 percent in 2002 to 6.1 percent in 2019 for all tax filers, and from 5.8 percent in 2002 to 9.3 percent in 2019 for tax filers with taxable returns (i.e., those with a tax liability).

The average amount of the credit dipped from $199 in 2002 to $191 in 2019.

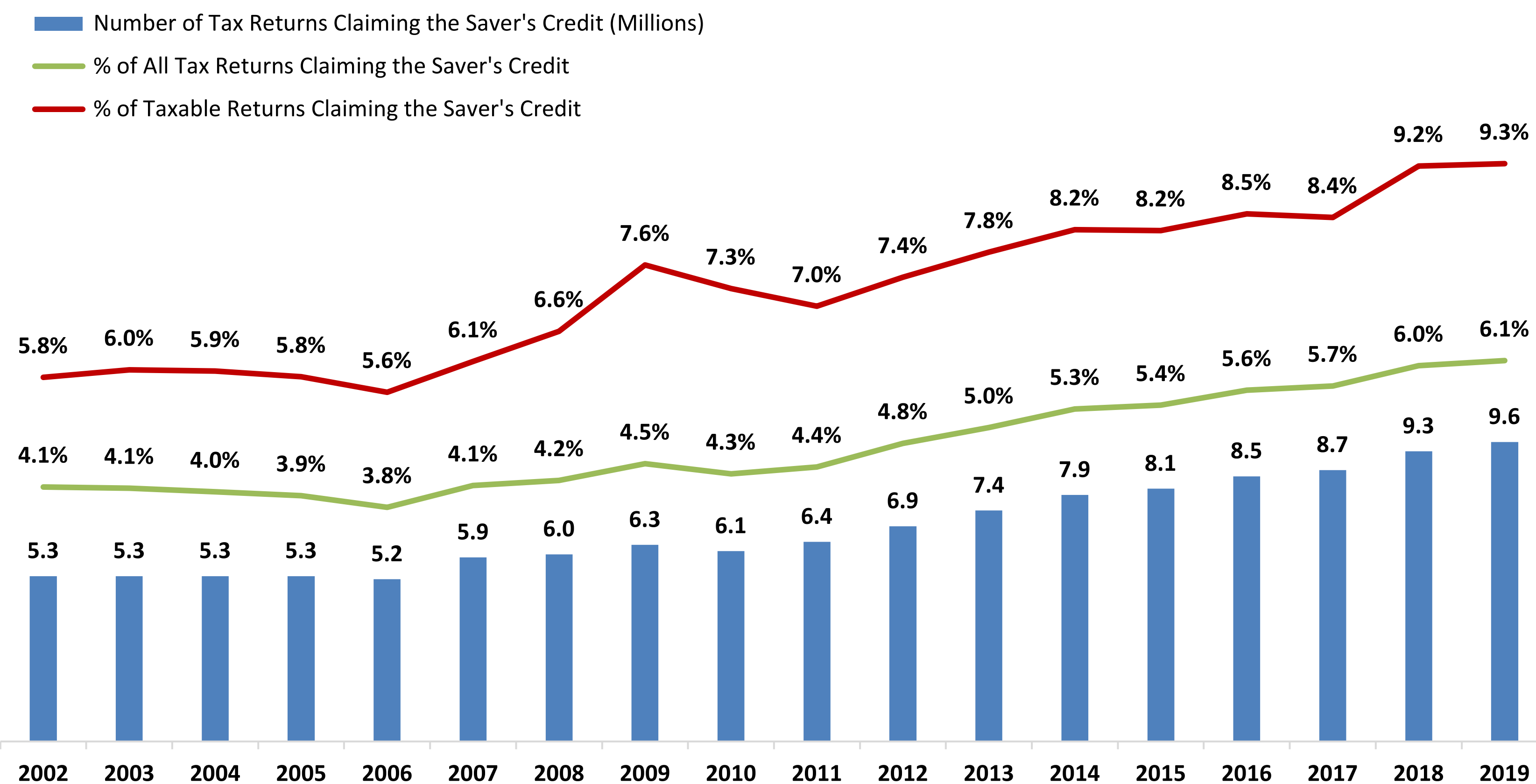
The annual cost of the Saver's Credit to the federal government has grown from $1.06 billion in 2002 to $1.84 billion in 2019.

Important note: Data is not available to estimate the number of tax filers who may have been eligible to claim the credit.

See chart on the following page that illustrates the full historical trend analysis.

Source: Transamerica Center for Retirement Studies, Analysis of IRS SOI Data, 2002 to 2019 (the most recent year that data is available)

Saver’s Credit Historical Trend Analysis



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Annual Cost ($B)	$1.06	$1.03	$1.01	$0.94	$0.89	$0.98	$0.98	$1.04	$1.03	$1.12	$1.20	$1.32	$1.38	$1.44	$1.54	$1.56	$1.74	$1.84
Average Amount	$199	$195	$191	$178	$172	$167	$164	$166	$168	$175	$174	$178	$174	$178	$182	$180	$187	$191

Source: Transamerica Center for Retirement Studies analysis of IRS SOI Data, 2002 to 2019
Note: The Saver’s Credit became available in 2002. The most recently available IRS SOI data is for 2019.

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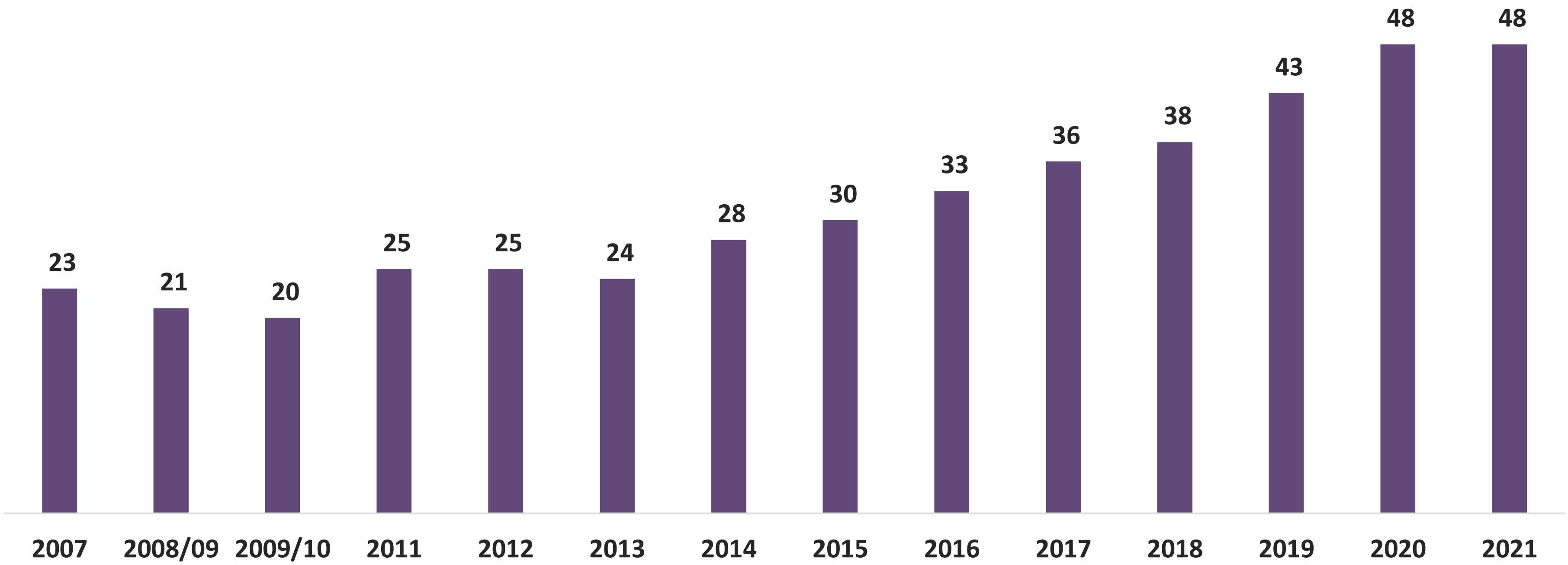
Saver’s Credit Awareness Has Grown and May Be Plateauing

TCRS has measured the awareness of the Saver’s Credit among workers of for-profit companies since 2007. Over the years, awareness has increased from 23 percent in 2007 to 48 percent in 2021. While the increase in awareness is impressive, clearly, there is a need to promote the Saver’s Credit. Some retirement savers may not be claiming the credit due to a lack of awareness. Among non-retirement savers, awareness of the credit could be a nudge to start saving.

Workers’ Awareness of the Saver’s Credit (Yes %)



Source: Transamerica Center for Retirement Studies, Annual Retirement Survey of Workers, 2007 to 2021.
Note: For the years 2007 to 2016, the sample base comprised workers of for-profit companies with 10+ employees. In 2017, it was workers of companies with 5+ employees. In 2018 to 2021, it was workers of companies with 1+ employees.

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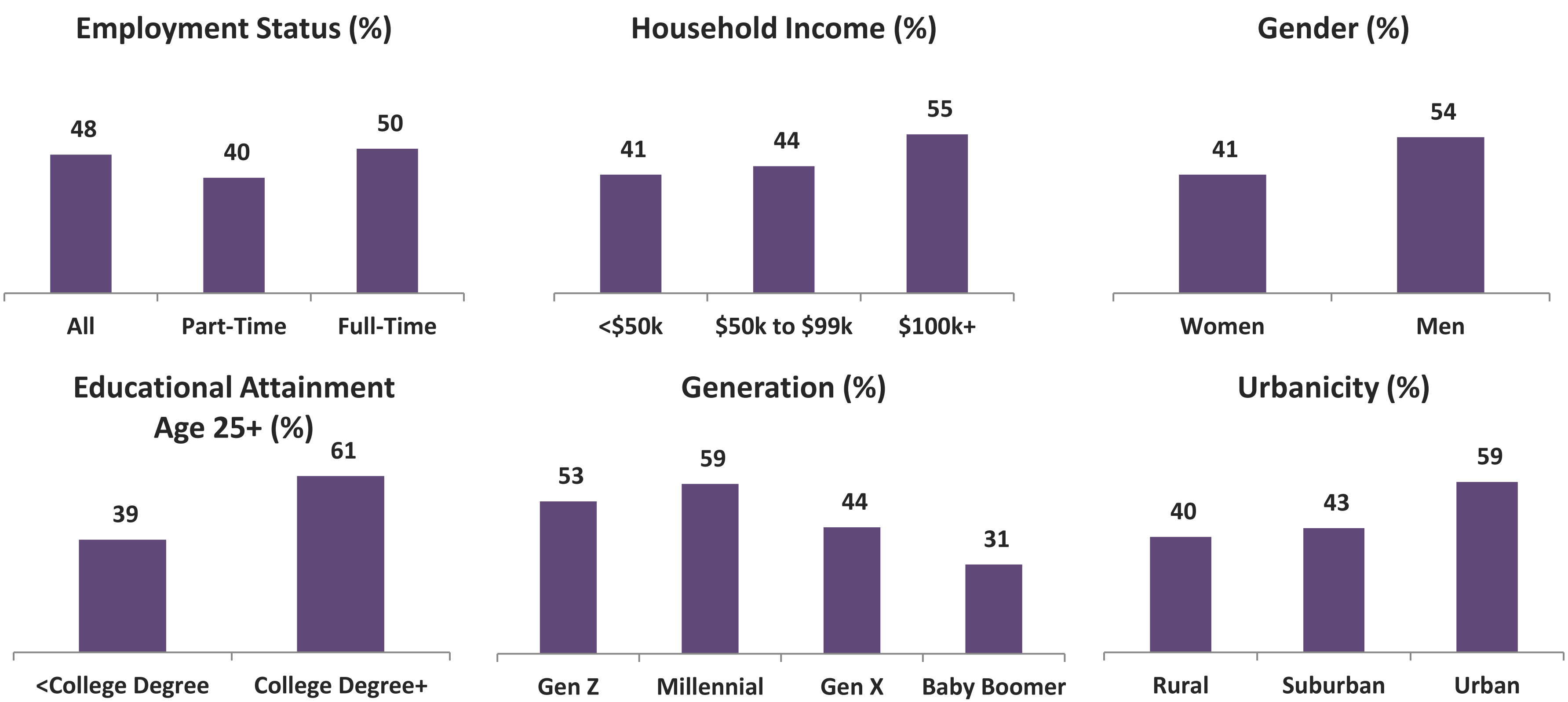
Workers’ Awareness of the Saver’s Credit Is Low

In 2021, TCRS finds that only 48 percent of workers at for-profit companies are aware of the Saver’s Credit. Awareness is even lower among workers who are more likely to be eligible to benefit from it. For example, only 41 percent of lower-income workers reporting an annual household income (HHI) of less than $50,000, and 44 percent of those with an HHI of $50,000 to $99,999 are aware of the credit, compared with 55 percent of those with an HHI of $100,000 or more. Part-time workers are less aware than full-time workers (40 percent, 50 percent, respectively). Women are less aware than men (41 percent, 54 percent, respectively).

Workers’ Awareness of the Saver’s Credit (Yes %)



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

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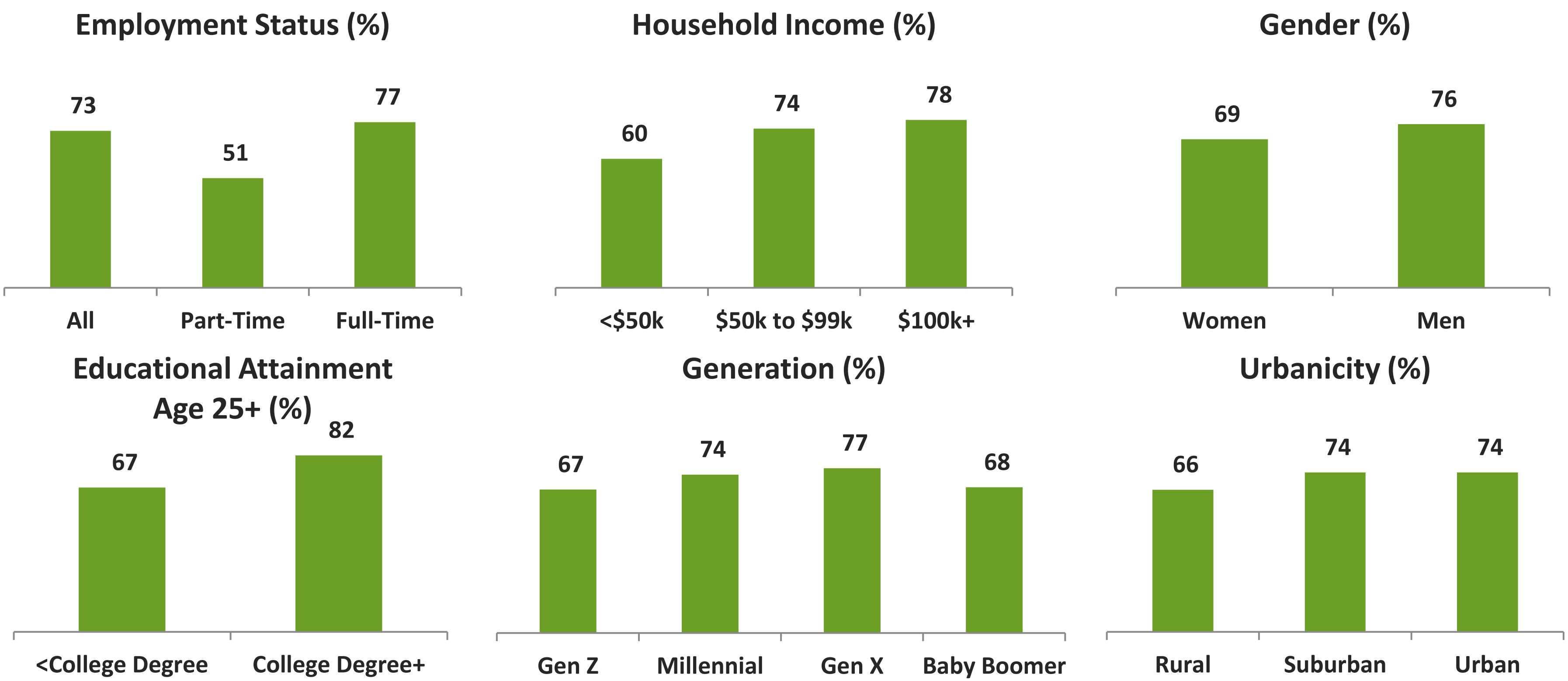
Workers Who Are Offered a 401(k) or Similar Plan By Employer

Employers play an essential role in facilitating retirement savings by providing workplace retirement savings plans, such as 401(k) or similar plans, or payroll-deducted IRAs. Workers with access to such plans are far more likely to save for retirement than those without them. In 2021, TCRS finds that the workers of for-profit companies who more likely to benefit from the Saver's Credit (e.g., lower-income, part-time, women) are less likely to be offered a 401(k) or similar plan by their current employers. Expanding coverage so that all workers have access to workplace retirement plans is a public policy priority that can improve both retirement savings and Saver's Credit claiming rates.

Workers Who Are Offered a 401(k) or Similar Plan By Employer (%)



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

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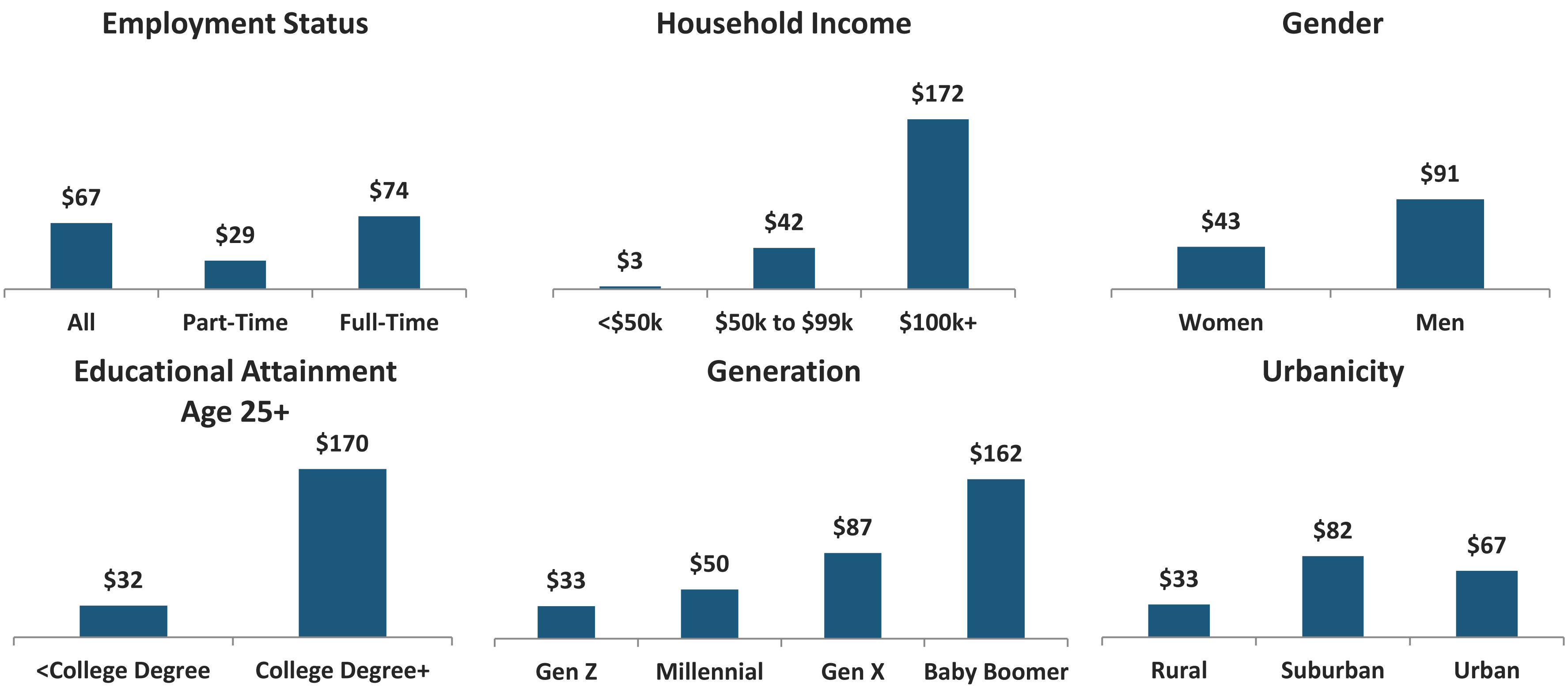
Workers' Total Household Retirement Savings

TCRS' 2021 survey findings illustrate major disparities in retirement savings. Across levels of household income (HHI), workers of for-profit companies with an HHI of less than $50,000 have saved $3,000 in all household retirement accounts and workers with an HHI of $50,000 to $99,999 have saved $42,000, compared with $172,000 among those with an HHI of $100k+ (estimated medians). Part-time workers' savings are substantially less than full-time workers' ($29,000, $74,000, respectively). Women's savings are less than half that of men's ($43,000, $91,000, respectively). These vulnerable groups could especially benefit from the Saver's Credit.

Workers' Total Retirement Savings in Household Accounts (Estimated Medians, $000s)



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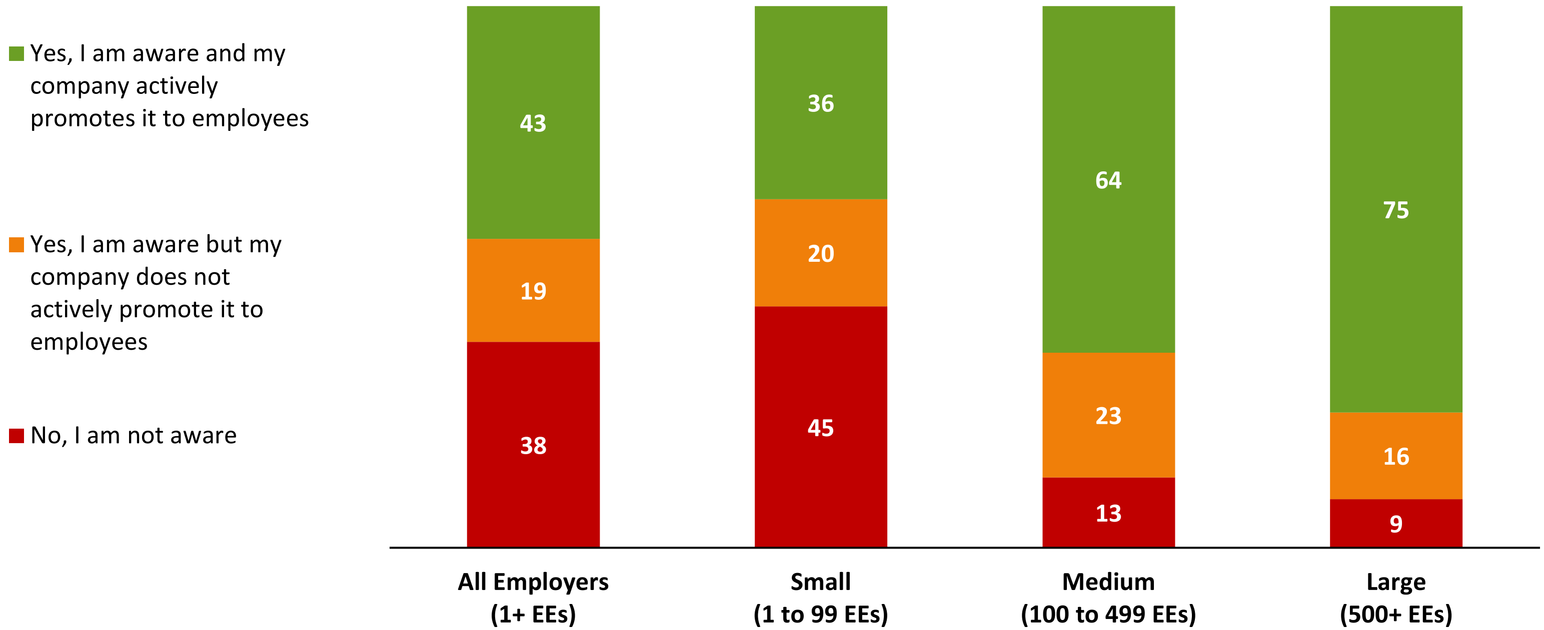
Source: Transamerica Center for Retirement Studies, 22nd Annual Retirement Survey of Workers, 2021
Note: The estimated medians include respondents who said "none."

Employers Can Play a Role in Promoting the Saver's Credit

Employers play an invaluable role in disseminating important information to their employees and many could be doing more to promote the Saver's Credit. Only 43 percent of employers are both aware of the Saver's Credit and actively promoting it to their employees – and their efforts increase with company size. Large (75 percent) and medium companies (64 percent) are significantly more likely to be actively promoting it, compared with small companies (36 percent). Thirty-eight percent of employers are not aware of the Saver's Credit.

Employers' Level of Awareness of the Saver's Credit and Efforts to Promote It (%)



Note: Results may not total to 100% due to rounding.
Source: TCRS, 22nd Annual Retirement Survey of Employers, 2021

Recommendations

The Saver’s Credit is a meaningful incentive that can help improve retirement security, especially among vulnerable demographic groups. It has the potential to become even more meaningful in the future. Policymakers are encouraged to promote, enhance, and expand the Saver's Credits and they should be applauded for their efforts.

Promoting the Saver’s Credit

Everyone can play a role in promoting the Saver’s Credit in both its current form and with future enhancements including policymakers, media, financial services industry, employers, and individuals. A collective effort is needed to maximize impact.

TCRS recommends these ways to promote the Saver’s Credit:

- Implement educational campaigns to promote the Saver’s Credit and how to claim it. Produce and promote educational content in multiple languages to reach the diverse U.S. population.
- Carefully craft the messaging and positioning of educational campaigns to engage the intended audience. For example, while the term “low- to moderate-income” workers is important in public policy discussions, it may not resonate with workers. Many who are potentially eligible may not self-identify as being “low- to moderate-income.” Furthermore, employers may be reluctant to promote the Saver’s Credit because the terminology could reflect negatively on their compensation practices. A possible approach of educational campaigns could be to refer to “eligible tax filers,” outline the income eligibility requirements, and offer stories and examples of people benefitting from the credit.
- Highlight opportunities for additional savings related to the Saver’s Credit including the IRS’ Free File program and the ability to deposit a portion of one’s tax refund into an IRA.
- Encourage employers to promote the Saver’s Credit among their employees.

Recommendations

Enhancing and Expanding the Saver's Credit

Policymakers are encouraged to consider opportunities to enhance and expand the Saver's Credit so that more workers can be eligible and more greatly benefit from it. At the same time, they should continue focusing efforts on expanding retirement plan coverage, so that all workers have the opportunity to save in the workplace, which could increase savings rates and Saver's Credit claiming rates.

TCRS recommends these ways to enhance and expand the Saver's Credit:

- Making the Saver's Credit refundable so that all retirement savers who meet the income and eligibility requirements can fully benefit. The Saver's Credit currently only benefits those with a tax liability. By making it refundable, low- to moderate-income workers without a tax liability would be incentivized to save and benefit.
- Simplifying and collapsing the current three credit rates (i.e., 50 percent, 20 percent, 10 percent) within the income requirements into a single credit rate of 50 percent. This would increase the credit amount for many tax filers who claim the credit.
- Increasing the income eligibility requirements so that more workers can benefit from the credit.
- Eliminating the non-income-related eligibility requirements (i.e., must be 18 or older, cannot be a full-time student, cannot be claimed as a dependent on another's tax return). The current requirements exclude younger workers who should be encouraged to start saving as early as possible so they can maximize their long-term savings horizon and benefit from the potential compounding of investments.
- Facilitate the ability for tax filers to directly deposit their Saver's Credit amount into a retirement account so they can boost their savings.

The Saver's Credit has a 20-year track record of success in helping improve our nation's retirement security. By promoting, enhancing, and expanding the Saver's Credit, our retirement system can become more inclusive, bridge inequalities and, ultimately, help more people save, invest, and be able to retire.

Appendix

Methodology: 22nd Annual Retirement Survey of Workers

- The analysis contained in this report was prepared internally by the research team at Transamerica Institute and Transamerica Center for Retirement Studies (TCRS).
- A 28-minute online survey was conducted within the U.S. by The Harris Poll on behalf of Transamerica Institute and TCRS between October 28 and December 10, 2021 among a nationally representative sample of 10,003 adults and an oversample of 2,005 workers in a for-profit company employing one or more employees. The data in this report is shown for a subsample of 5,493 workers in for-profit companies. Worker respondents met the following criteria:
  – U.S. residents, age 18 or older
  – Work full-time or part-time in a for-profit company employing one or more employees
- Data were weighted as follows:
  – Census data were referenced for education, age by gender, race/ethnicity, region, household income, education, employment, marital status, and size of household where necessary to align them with their actual proportions in the population.
  – The weighting also adjusts for attitudinal and behavioral differences between those who are online versus those who are not, those who join online panels versus those who do not, and those who respond to surveys versus those who do not.
- Percentages are rounded to the nearest whole percent.

Methodology: 22nd Annual Retirement Survey of Employers

- The analysis contained in this report was prepared internally by the research team at Transamerica Institute and Transamerica Center for Retirement Studies (TCRS).
- A 20-minute online survey was conducted in the U.S. by The Harris Poll on behalf of Transamerica Institute and TCRS between November 8 and November 24, 2021 among a nationally representative sample of 1,874 employers. Potential respondents were targeted based on job title at for-profit companies and met the following criteria:
  - Business executives with specific titles who make decisions about employee benefits at their company
  - Employ one or more employees across all locations
- Quotas were set for large and small companies. and results were statistically weighted as needed by using targets from the Dun & Bradstreet database to ensure each quota group is a representative sample based on the number of companies in each employee size range.
- In order to ensure that this sample is fully representative of the targeted universe of employers, results were weighted by:
  - Employee size, revenue, industry, and region.
- Percentages are rounded to the nearest whole percent.

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