November 4, 2024

Mr. Tom Morgan
Internal Revenue Service
CC:PA:01:PR
P.O. Box 7604
Ben Franklin Station
Washington, DC 20044

RE: Notice 2024-65 Request for Comments Regarding Implementation of Saver's Match Contributions

Dear Mr. Morgan,

The retirement savings shortfall is expected to create a $1.3 trillion burden on state and federal budgets over the next 20 years.[1] The consequences of this shortfall will be wide-ranging, with the largest impact on those already reliant on public assistance. This retirement savings gap, exacerbated by budget constraints at all levels of government and a sizable aging population that is financially ill-equipped for retirement, is one of the largest financial crises facing working families right now.

If well implemented, the Saver's Match provision in SECURE 2.0 provides a valuable tool for directly addressing the retirement security crisis. We are grateful for the opportunity to offer our feedback to the Department of the Treasury (Treasury) and Internal Revenue Service (IRS) on how this policy might better support low- and moderate-income (LMI) workers.

State-Facilitated Retirement Programs ("SFRPs" or "State Programs") take an active role in addressing retirement account access gaps and, consequently, facilitate savings for a disproportionately large number of active savers who could benefit from the Saver's Match. Currently, 20 states have taken legislative action to support retirement savings, and 17 of these states either have or are in the process of implementing automatic enrollment individual retirement account (IRA) programs (also known as auto-IRAs). These SFRPs require employers who do not offer a retirement plan to facilitate the automatic enrollment of their employees into the program. Using well-designed programmatic defaults, the programs allow employees to begin saving via payroll deduction easily and automatically. All active SFRPs use Roth IRAs as the default account type, and the majority enroll participants at a 5% savings rate. Participants can opt out or change their contribution rate at any time.

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[1] The Pew Charitable Trusts, "State Automated Retirement Programs Would Reduce Taxpayer Burden From Insufficient Savings," 2023. https://www.pewtrusts.org/en/research-and-analysis/articles/2023/05/11/state-automated-retirement-programs-would-reduce-taxpayer-burden-from-insufficient-savings#:~:text=The%20analysts%20who%20conducted%20the,billion%20between%202021%20and%2020040.

Combining the State Programs with the Saver’s Match presents a significant opportunity to address savings shortfalls and put workers on a more stable path to financial security in retirement. These programs have experienced significant growth in a relatively short period. The first SFRP launched in Oregon in 2017; as of September 30, 2024, the eight State Programs reporting data have a combined $1.79 billion in assets under management and approximately 941,000 funded retirement savings accounts.[2] The average contribution rate varies by program at approximately $108-$191 per month, meaning that workers are contributing approximately $1,000-$2,000 per year. However, since these programs use IRAs as the savings vehicle, employers are not allowed to match these contributions. Government matching funds will provide a much-needed boost for individuals saving through the State Programs, thus helping to bolster their retirement security and reduce future taxpayer burden.

SFRPs serve a significant number of savers who will be eligible for the Saver's Match, as the programs reach workers who are often underserved, earning low wages, and have an estimated average income at or below the thresholds for the Saver's Match.[3] There are several areas of the policy that, if left unaddressed, would either greatly increase operational costs for SFRPs or, in the worst-case scenario, prevent SFRP participants from receiving these matching funds.

The priority of SFRPs is, above all, to ensure all workers have the opportunity to save for retirement. To that end, our responses below specifically address policy gaps in the current Saver’s Match statute, areas requiring further clarification, and general outreach and marketing tools that may be used to increase awareness of this critical benefit. On behalf of the 11 active State Programs (CA, CO, CT, DE, IL, ME, MD, NJ, OR, VT, and VA), thank you for the opportunity to provide input and for your continued attention to this issue. Please contact Christine Cheng, Executive Director, Illinois Secure Choice (ccheng@illinoistreasurer.gov) for additional information or questions.

Sincerely,

David Teykaerts, Executive Director, CalSavers Retirement Savings Board
David L. Young, Colorado State Treasurer
Sean Scanlon, Connecticut State Comptroller
Colleen C. Davis, Delaware State Treasurer
Michael W. Frerichs, Illinois State Treasurer
Elizabeth Bordowitz, Executive Director, Maine Retirement Savings Board
Glenn Simmons, Executive Director/CEO, MarylandSaves
Todd M. Hassler, Executive Director, New Jersey Secure Choice Savings Program
Tobias Read, Oregon State Treasurer
Michael Pieciak, Vermont State Treasurer
Mary G. Morris, Chief Executive Officer, Commonwealth Savers Plan (RetirePath Virginia)

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[2] Georgetown Center for Retirement Initiatives, “State Program Performance Data,” August 2024. https://cri.georgetown.edu/states/state-data/current-year/

[3] The Pew Charitable Trusts, “Demographic Overview of Illinois Secure Choice Program Population”, 2023. https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2023/08/demographic-overview-of-illinois-secure-choice-program-population.

I. Overview of the comments

The State Programs will be on the front line of Saver's Match implementation, given their direct connection with nearly one million LMI workers. Through our past and continued interactions with this demographic, we believe there are a number of overarching principles that Saver's Match implementation should strive to achieve:

- **Simplicity for the applicant.** Treasury and the IRS should design all systems, webpages, claiming processes, and application forms to be as simple and easy to understand as possible.
- **Automation whenever possible**. The IRS already receives information from multiple sources regarding both income and retirement plan contributions. If information can be pre-populated into a form, or data can be matched without requiring additional work from the applicant, this method should be prioritized.
- **Reduce decision fatigue and use defaults.** Only ask the applicant to provide information if absolutely required. Establish optimal defaults for the majority of eligible savers (which account will receive the money, how it will be invested, and what will happen if the amount is under $100), and create avenues for individuals to elect a different path, if wanted.
- **Easy to find and file.** Treasury and the IRS should ensure that the Saver's Match is integrated in Direct File and work directly with Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites and private tax software providers to highlight the provision for filers.
- **Access for all who qualify.** For those who don't file taxes, but could benefit from the Saver's Match, Treasury and the IRS should create a streamlined and simplified way to file just to receive the Saver's Match.
- **Broadly communicate at all levels.** Outreach regarding the Saver's Match program is needed at the federal, state, and local levels. Consider partnering with the State Programs to disseminate materials or providing grant funding directly to the State Programs for this purpose.

II. Responses to Questions Raised in the RFI

The State Programs welcome the opportunity to respond to questions from the request for information that fall within their purview. Beyond the response below, we welcome further engagement with Treasury and the IRS as solutions to all issues raised in the request for information are evaluated in the coming months.

<u>Question 1 (Individual eligibility for the Saver's Match):</u>

The key to communicating individual eligibility for Saver's Match contributions is clarity and simplicity, both in messaging and creating a mechanism for the individual to determine eligibility for the matching funds.

Recommendations:

- **Website Accessibility.** Create a user-friendly website that individuals can access to determine if they qualify for the matching funds. Modeled after getctc.org, this website should be simple to navigate, provide easy-to-use eligibility tools, answer FAQs, be written at an appropriate reading level, and require the individual to provide only the most basic information. Individuals in the target population are unlikely to read lengthy texts to determine eligibility and would benefit from a website with a questionnaire tool that guides the individual to an eligibility determination. For those individuals who are accustomed to receiving the Saver's Credit, the website should include simple information regarding the differences between the Saver's Credit and the Saver's Match. When those differences disqualify a group who previously qualified for the Saver's Credit (for instance, certain nonresident aliens or those who made contributions to an ABLE account), the website should make these new exclusions clear.
- **Tax Software Integration.** Work with tax software providers and update Direct File to ensure all software is updated to reflect the eligibility requirements for the Saver's Match. Prior to tax year 2027, the IRS should work with private tax software providers to discuss Saver's Match implementation and how the process for claiming matching funds will work. The IRS should encourage tax software providers to make claiming the funds as easy as possible, without requiring individuals to have prior knowledge of the Saver's Match or to have to search for the correct forms. The software should identify, with minimal questions, whether the individual contributed to a qualified retirement savings account and use the information already entered about income and other factors to make an eligibility determination. Once made, the software should direct the individual to input any information required to complete the claim. The process should be the same for individuals using Direct File. Private and Direct File software should also include pop-ups or FAQs that explain why a taxpayer who was eligible for the Saver's Credit is not eligible for the Saver's Match.
- **Educational Materials.** The IRS should ensure that any educational materials directed to the tax preparation community include references to the change from the Saver's Credit to the Saver's Match and a link to the Saver's Match website. In addition, the IRS should work directly with the SFRPs to ensure that VITA and TCE trainers and volunteers are aware of SFRPs (in the states where these programs exist) and know how to ask about and/or recognize them. Savers in SFRPs may not recognize they have a Roth IRA, but they may recognize that they participate in the branded name of their SFRP.

Question 2 (Barriers to retirement saving):

There are several factors that serve as barriers to making qualified retirement savings contributions, particularly among underserved communities:

- **Low wages and competing financial needs.** LMI workers have, by definition, less discretionary income to set aside for retirement versus to use for immediate needs. Saving for the future can be an unattainable goal when immediate needs consume most or all of a worker's income. Immediacy bias can also lead a worker to value shorter-term needs over longer-term goals.
- **Lack of knowledge of the financial system.** Some workers do not save formally for retirement because they do not have a good understanding of how the retirement system works (i.e. how they can get started, what options are available, how an investment account works, rules governing when they are allowed to withdraw money from their accounts, etc.). A lack of knowledge about the system and awareness of available options leads to a lack of engagement with the formal retirement system for a segment of workers.
- **Lack of access to workplace retirement savings options.** Workers are 15 times more likely to save for retirement if they can do so at work through payroll deductions.[4] However, 56 million workers lack access to a workplace retirement savings option.[5]
- **Cultural and linguistic differences.** Workers from different cultural backgrounds may hold differing views on the role of banks and financial institutions that may prevent greater engagement with our financial system. Workers who do not speak English as a primary language may also encounter language barriers that limit their ability to engage with the financial system.

Recommendations:

- **Market through State Programs.** Increase awareness of savings options through collaboration with SFRPs. Working closely with the SFRP states to create and disseminate information about the benefits of saving for retirement through the ease of payroll deduction programs can help increase the pool of retirement savers (and thus increase the number of savers eligible for the Match). Additionally, SFRPs already serve nearly one million LMI workers and hundreds of thousands of their employers. Through networks and direct outreach already established by the states, SFRPs have the ability to provide Saver's Match education to a significant number of eligible recipients.
- **Financial Education.** Improve workers' understanding of the financial system and investment through collaboration with financial education organizations. Treasury and the IRS should communicate with financial education providers to support or augment existing efforts to increase financial knowledge, familiarity, and comfort with retirement savings vehicles through channels already established by or being contemplated by those providers.

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[4] Employee Benefit Research Institute, unpublished estimates of the 2004 Survey of Income and Program Participation Wave 7 Topical Module (2006 data) for workers earning between $30,000 and $50,000, 2006, as cited in AARP Public Policy Institute Fact Sheet: Access to Workplace Retirement Plans by Race and Ethnicity, February 2017.
[5] Sabelhaus, John, "The Current State of U.S. Workplace Retirement Plan Coverage," 2022. https://repository.upenn.edu/entities/publication/d8cadb9f-a595-4574-9b5c-3f173c60cabe.

<u>Question 3 (Method for claiming):</u>

The process for claiming the Saver's Match should be as easy and streamlined as possible, in order to make it accessible to qualified filers with limited time and psychological bandwidth due to financial and other stressors. Wherever possible, claiming steps should be automatic.
If the IRS uses a form similar to Form 8880, they should consider these issues:

- **Cost to File.** Form 8880 is often not included in free tax software, which discourages low-income filers from claiming it. The IRS should promote Free File and Direct File options along with the Saver's Match, as many eligible individuals also qualify for free filing. Filers who must pay extra to file forms associated with the Saver's Match are less likely to claim it.
- **Complexity.** The current Form 8880 requires several calculations and a good deal of cognitive effort, increasing the chance of errors. Simplifying the form or automating the calculations would reduce mistakes.
- **Friction.** Filing Form 8880 involves several steps that can be confusing or time-consuming, leading to drop-offs. Clearer instructions and fewer calculations would make the process smoother.

Improving the form's design, automating processes where possible, and making the filing process less burdensome will help more people claim the Saver's Match.

Recommendations:

- **Introduce a simplified form.** Individuals should not be required to file a full Form 1040 if they don't have enough income to meet the filing threshold. Instead, a simplified form for claiming the Saver's Match should be available, allowing people to certify that their income is below the filing threshold and that they have not otherwise filed a return.
- **Pre-populate information.** Where possible, tax software and online filing tools should pre-populate information based on data the IRS already receives, such as provider data, retirement account numbers, and contributions reported on Forms W-2 and 5498. Pre-population would minimize the need for manual entry, making it easier for individuals to confirm or update details.
- **Allow recordkeeping entities to automate the process.** If possible, allow recordkeeping entities to create a Saver's Match claiming process that is as close to automated as possible. Doing so would reduce claims paperwork, and greatly simplify the eligibility and claims process.

<u>Question 12 (Roth IRAs/State programs)</u>:

Nearly all participants in SFRPs are saving in a Roth IRA and will need a Traditional IRA to receive the matching funds. The IRS should consider changes to streamline the process of opening a Traditional IRA for this purpose.

Recommendations:

- **Timing Flexibility.** Allow providers flexibility regarding when they open a Traditional IRA. For instance, allow providers to open Traditional IRAs on behalf of Saver's Match recipients automatically, without requiring Roth IRA participants to take active steps to open Traditional IRAs prior to claiming the Saver's Match. Doing so would help reduce the cost and administrative burden associated with pre-opening accounts for Roth IRA participants who may not ultimately qualify for or claim the Saver's Match.
- **Know Your Customer (KYC) Requirements.** Clarify whether Know Your Customer (KYC) requirements apply to opening a second account (i.e., a Traditional IRA) when a participant already has a Roth IRA with the same provider. If KYC is required, consider waiving or streamlining this requirement to facilitate easier access to the Saver's Match.
- **Joint Disclosure.** Allow for a joint disclosure document covering both Roth and Traditional IRAs, thereby reducing paperwork and compliance burdens on providers. A consolidated disclosure would improve transparency for participants and simplify the process of managing multiple types of IRAs.
- **Electronic Delivery.** Permit providers to use electronic delivery as the default method for sending documents related to Traditional IRAs opened for Saver's Match claimants. Electronic delivery would reduce costs and administration, and align with modern digital practices while ensuring participants receive timely and efficient communication.

<u>Question 23 (Other causes for concern)</u>:

The SFRPs would like to use this question as an opportunity to lay out elements of the existing statute that will be problematic for its successful implementation. While we recognize that these items are likely beyond the scope of change afforded to Treasury or the IRS, it is important that the State Programs identify the following issues for future consideration by legislative leadership.

Recommendations:

- **Roth IRA accounts.** The exclusion of Roth IRAs from Saver's Match eligibility is misaligned with the actual savings needs of the target population. Individuals meeting the income requirements for the Saver's Match are unlikely to have a Traditional IRA, as a pre-tax account is not as advantageous for LMI individuals as a Roth account.[6]

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[6] The Tax Policy Center reports that the share of taxpayers actively contributing to Traditional IRAs and who make less than $50,000 is 0.9%. Tax Policy Center, "Who Uses Individual Retirement Accounts?", 2024. https://taxpolicycenter.org/briefing-book/who-uses-individual-retirement-accounts.

Requiring individuals to open a Traditional IRA solely for the purpose of receiving the matching funds may expose the saver to a second set of provider fees and unnecessary complexity. The State Programs recommend that the statute be amended to allow Roth IRAs to receive the Saver's Match matching funds.

- **Eligibility.** The categorical exclusion of full-time students from receiving the Saver's Match does not seem justified given that 13.5 million students work, including 41% of all full-time students and 78% of all part-time students,[7] and many may be saving for retirement at or separately from their workplace. This is especially true for students over 22 years of age, who comprise over 38% of all students in higher education.[8] A growing number of part-time workers are saving for retirement through payroll deduction programs like the SFRPs, some of whom are full-time students who could benefit from the boost to their long-term financial security.
- **Income limits.** The modified adjusted gross income (MAGI) limits for the Saver's Match, particularly those for single taxpayers, will significantly limit the number of people eligible for matching funds. To receive the 50% match, a single person would need to have a MAGI of less than $20,500 annually. To put that figure in perspective, the individual federal poverty level in 2024 is $15,060. The Saver's Match phases out between $20,501 and $35,500, meaning that a person living at 200% of the federal poverty line will qualify for a significantly reduced Saver's Match, while someone living at 235% of the federal poverty line no longer qualifies for any matching funds at all. Taxpayers who are married and filing jointly have more room to save with double these limits and presumably reduced expenses; however, with rising costs, it is increasingly difficult for LMI workers to save for retirement. We recommend the statute be amended to increase the income limits for those who qualify for both the full and partial matches, with a full match available to filers with MAGIs of up to 200% of the federal poverty line.
- **Interaction with asset limits.** Asset limits in public benefit programs can act as a barrier to saving for the long term. Recipients of public benefits (i.e., SSI, SNAP, TANF, etc.) are often subject to limitations on their total assets in order to remain a beneficiary of individual programs. The Saver's Match statute does not appear to exclude the matching funds from calculations for public benefit programs. Lacking such an exclusion, LMI families who receive the Saver's Match may do so at the risk of losing needed benefits. We recommend the statute be amended to explicitly state that the matching funds will not be taken into account when calculating assets for federal public benefit programs, and recommend that states with asset limits on public benefit programs remove the Saver's Match from their asset calculations as well.

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[7] The National Center for Education Statistics reports that 41% of full-time students and 78% of part-time students were employed in 2022. Nearly 50% of part-time students, totaling about 3.6 million people, were employed full-time. National Center for Education Statistics, "Table 503.40: Percentage of 16- to 64-year-old undergraduate students who were employed, by attendance status, hours worked per week, and selected characteristics: 2010, 2015, and 2022," 2023. https://nces.ed.gov/programs/digest/d23/tables/dt23_503.40.asp.

[8] National Center for Education Statistics, "Table 303.50: Total fall enrollment in degree-granting postsecondary institutions, by level of enrollment, control and level of institution, attendance status, and age of student: 2021,"2023. https://nces.ed.gov/programs/digest/d22/tables/dt22_303.50.asp.

Clarification:

In addition to the items above, the State Programs are seeking clarity from Treasury and the IRS on the Saver's Match Recovery Tax. As noted, Roth IRAs are the default retirement savings account in SFRPs and savers make after-tax qualified retirement savings contributions via automatic payroll deduction. SFRP participants sometimes make withdrawals from their Roth IRAs when they experience financial hardship.[9] These savers may receive a distribution of their contributions without penalty, and indeed, the design of Roth IRAs permits a level of liquidity that is needed for savers with the smallest margins to weather financial shocks.

Per the Saver's Match statute, contributions to Roth IRA accounts are qualified retirement savings contributions, but these same accounts may not receive and hold the matching funds. If the SFRP program administrators were to open a Traditional IRA alongside an individual's Roth IRA, they would maintain the Traditional IRA for the matching funds only. Individuals would continue to save by default via payroll deduction into the Roth IRA account.

Recovery Tax Request for Clarification: Because the qualified retirement savings contribution is tied to the Roth IRA, but the Saver's Match is only eligible to be deposited in a Traditional IRA, it is unclear if application of the Saver's Match Recovery Tax is tied to a qualifying distribution from the Roth IRA or the Traditional IRA. *The SFRPs request clarification from Treasury and the IRS regarding whether a distribution from the Roth IRA would trigger the Recovery Tax if the Saver's Match has been deposited into, and remains in, the Traditional IRA.*

If this type of distribution triggers the Recovery Tax, it creates an unnecessary burden on LMI taxpayers who are experiencing financial shocks and may deter taxpayers from claiming the Saver's Match for fear of unintended tax consequences. It also puts individuals who save in IRAs at a comparative disadvantage with other retirement savers. Starting this year, employers with 401(k), 403(b), or governmental 457(b) plans can offer participants penalty-free distributions of up to $1,000 for emergency personal expenses. This penalty-free distribution does not apply to IRAs; indeed, in the absence of clarification of how the Recovery Tax would take into account distributions from a Roth IRA, a Roth IRA saver could be penalized twice for an early distribution (the normal early withdrawal penalty on earnings plus potentially the Saver's Match Recovery Tax).

[9] In a program survey from March - August 2024, 75% of withdrawals from the Connecticut Retirement Security Program were due to financial emergencies or to cover payment of bills and debt.

Question 26 (Saver's Match promotion and public awareness):

The following tools and additional efforts could further support and increase public awareness of the Saver's Match.

Recommendations:

- **Use Existing Tax Infrastructure.** Leverage the tax filing community, including private providers and IRS programs like TCE and VITA as well as other tax filing programs, to make them aware of the Saver's Match and of SFRPs. Some eligible savers may be aware that they save into an SFRP's branded name (e.g., CalSavers, OregonSaves, Illinois Secure Choice, etc.) but may not be aware that the account they save into is a Roth IRA. Given that nearly one million savers are in SFRPs, knowledge of the State Programs will be critical in catching potentially eligible Saver's Match recipients.
- **Use cross-promotion.** Provide financial support to SFRPs or state/local entities engaged in financial literacy efforts and outreach around the Saver's Match to help them further their reach. When Treasury promotes the Saver's Match, it should also promote tax programs like VITA, TCE, and Direct File, and provide information about retirement savings and the SFRPs.
- **Clarify that engagement is not financial advice.** Clarify the status of communications from recordkeeping entities and SFRPs so that direct engagement with participating savers regarding eligibility and claiming the Saver's Match is not considered financial advice.
- **Mail advance notices to eligible savers.** Direct notices to savers eligible for Saver's Match contributions via mail wherever possible. Likely eligible savers may be identified utilizing prior-year tax returns, and notices could summarize eligibility criteria.
- **Launch a government website to check for qualification.** Create a federal government website where individuals can easily check if they qualify (getyourmatch.com). The website should include a questionnaire/calculator wherein savers can input the eligibility information required and receive accurate results on eligibility at the end of the questionnaire. The website should include links to further information and the tools should be available in multiple languages. Ensure that all web-based material is accessible via mobile device browser interfaces as well as functional on all major computer browsers, since low-income households have less access to broadband internet in the home.[10]
- **Create a chatbot.** Utilize generative AI-driven chatbot functionality to allow for a native-language conversation with nearly all US-spoken languages to explain eligibility and answer questions about the Saver's Match. Make the chatbot available as a plug-in to SFRPs and other groups working to increase adoption of the Saver's Match.

[10] More than one in six people in poverty had no internet access as of 2021, and an estimated 51-57% of people in poverty had no access to broadband internet in the home. U.S. Department of Health and Human Services, "People in Low-Income Households Have Less Access to Internet Services – 2019 Update," 2021. https://aspe.hhs.gov/sites/default/files/private/pdf/263601/internet-access-among-low-income-2019.pdf

- **Ensure information is available in multiple languages.** Make information widely available in multiple languages in web, print, and other marketing materials. Utilize existing SRFP collaborations with demographics-based advocacy organizations to disseminate critical Saver’s Match information locally.
- **Target communications to individuals who do not file taxes.** Some savers eligible for the Saver’s Match make too little to be required to file a return, so they will be unaware of their eligibility to claim the Saver’s Match without assistance and prompting. Ensure that outreach materials are clear that an individual can qualify for the Saver’s Match, even if they do not normally file taxes.