AARP Real Possibilities

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Via: *taxreform2017@finance.senate.gov*

The Honorable Orrin Hatch	The Honorable Ron Wyden
Chairman	Ranking Member
Committee on Finance	Committee on Finance
U.S. Senate	U.S. Senate
219 Dirksen Senate Office Building	219 Dirksen Senate Office Building
Washington, DC 20510	Washington, DC 20510

Dear Chairman Hatch:

On behalf of our nearly 38 million members and all Americans age 50 and older, AARP[1] would like to take this opportunity to respond to your request for feedback on tax reform from experts and stakeholders. This letter is a follow up on our letter on tax reform from February 23, 2017. AARP supports the development of a tax system that is both simpler and makes the U.S. more competitive, but we also want a tax code that provides fairness and protection to Americans on fixed incomes.

As tax reform advances, changes to the tax code should not result in a disproportionate, adverse impact to older Americans. In addition, tax reform should focus on making the income tax more equitable and efficient. Our tax system should produce sufficient revenue to pay for important national, state, and local priorities and maintain fiscal stability. Proposals to restructure the federal tax system should also recognize the

[1] AARP is the nation's largest nonprofit, nonpartisan organization dedicated to empowering Americans 50 and older to choose how they live as they age. With nearly 38 million members and offices in every state, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, AARP works to strengthen communities and advocates for what matters most to families with a focus on health security, financial stability and personal fulfillment. As a trusted source for news and information, AARP produces the world's largest circulation publications, AARP THE MAGAZINE and AARP BULLETIN. Nearly half of our members are employed full or part-time, with many of their employers providing retirement plans. A major priority for AARP is to assist Americans in accumulating and effectively managing adequate retirement assets to supplement Social Security. The shift from defined benefit plans to defined contribution plans has transferred significant responsibility to individuals for investment decisions that will directly impact the adequacy of the assets available to fund future retirement needs. AARP has enthusiastically supported the Fiduciary Rule as a necessary protection for participants when they make investment decisions concerning their retirement monies. Without this protection, it is difficult for an individual to plan for a secure and adequate retirement.

importance of the following incentives for health and financial security for hardworking Americans.

Supporting Family Caregivers

An important goal for AARP has been to assure that Americans have access to affordable health care and support for family caregivers. AARP urges Congress to support family caregivers and help them address the financial challenges of caregiving as part of tax reform.

Approximately 40 million family caregivers provide an estimated $470 billion in unpaid care annually to adults who need help with daily activities such as bathing, dressing, meal preparation, medical/nursing tasks, and transportation. About 3.7 million family caregivers provide care to a child under age 18 because of a medical, behavioral, or other condition or disability and 6.5 million family caregivers assist both adults and children. Not only do family caregivers help people live independently in their homes and communities, they save taxpayer dollars by helping to delay or prevent their loved ones from needing more costly nursing home care and helping to prevent unnecessary hospital stays. To make this care possible, family caregivers often take on physical, emotional, and financial challenges. In addition to providing hands-on assistance and coordinating care, family caregivers pay for goods, services, and support for their loved ones out-of-pocket, such as for service providers, adult day care, transportation, home modifications, and assistive technology.

AARP urges Congress to provide tax relief for working family caregivers assisting loved ones, specifically to help offset a portion of the costs incurred in that care. A recent study by AARP found that family caregivers spent, on average, $6,954 in out-of-pocket costs related to caregiving in 2016, or nearly 20 percent of their income. Family caregiving is costly both in terms of direct expenditures and impact to potential income and retirement savings foregone. Paying for caregiving expenses can mean using savings, cutting back on the caregiver's own health care, or reducing or stopping saving for retirement. Employed family caregivers can also lose income if they leave the workforce or cut back their hours. For example, estimates of lifetime income-related losses sustained by family caregivers age 50 and over who leave the workforce to care for a parent range from a total of $283,716 for men to $324,044 for women, or $303,880 on average, in lost income and benefits over a caregiver's lifetime. Evidence suggests that caring for aging parents in midlife has a greater economic impact on female caregivers' retirement years than on male caregivers' retirement years, and may substantially increase women's risks of living in poverty and receiving public assistance later in life. Employers are also affected when they lose employees due to caregiving responsibilities.

AARP supports the bipartisan, bicameral Credit for Caring Act (S. 1151/H.R. 2505). The Credit for Caring Act would provide a new nonrefundable federal tax credit of up to $3,000 annually for eligible working family caregivers who are financially assisting their loved ones. Eligible family caregivers could receive the credit if the care recipient, of any age, meets certain functional or cognitive limitations or other requirements certified by a licensed health care practitioner. Across party lines, a strong majority (87 percent) of likely voters age 50 and older support a tax credit for working family caregivers, according to an AARP poll. The existing child and dependent care credit (CDCC) does not adequately serve all family caregivers, especially those assisting older adults. The CDCC does not help family caregivers who do not live with the person they are assisting or who care for non-dependents. The Credit for Caring Act would assist those caregivers. The CDCC also differs from the Credit for Caring Act in that it does not index certain dollar amounts to inflation, has differences in qualified expenses, has a smaller maximum credit amount, and other structural and eligibility differences.

Assisting Individuals with High Medical Costs
In addition to the important issue of supporting family caregivers, AARP also urges a return to 7.5 percent of income threshold for the medical expense deduction that helps individuals with high medical costs, including long-term services and supports (LTSS) or long-term care (LTC) costs. Between eight and ten million Americans utilize the medical expense deduction, and it is especially important to many Americans age 50 and older. In 2014, 73 percent of itemized filers applied the medical expense deduction. Since the 1940's, Americans with high health care costs have been able to deduct some of those expenses from their taxes. However, as of January 1, 2017, America's seniors age 65 and older are for the first time subject to the higher 10 percent income threshold.

Medical expenses include amounts paid for prevention, diagnosis, treatment, equipment, qualified LTC services, and limited amounts paid for any qualified LTC insurance contract. Individuals with qualified LTC insurance policies can deduct their premiums, up to a maximum limit that increases with age. To be eligible, the taxpayer must itemize deductions and have high medical costs -- in excess of 10 percent of adjusted gross income (previously 7.5 percent for individuals age 65 and older through 2016). The cost of LTSS in particular is very high -- the median cost of a private room in a nursing home is about $92,000 a year. Home care, which is more cost effective, still typically costs more than $30,000 a year. We therefore urge Congress to restore the 7.5 percent threshold for all taxpayers -- especially for taxpayers age 65 and over who face a tax increase for the first time this year -- to provide some relief to help those struggling to meet the increased burden of rising health care costs.

Enhancing Financial Security in Retirement

AARP has a long commitment to assisting all Americans in accumulating and managing the resources they need to supplement Social Security and maintain an adequate standard of living throughout their retirement years. Unfortunately, both economic and social trends over recent decades, as well as developments affecting employer-provided benefits, have made the goal of achieving and maintaining an adequate income in retirement more challenging. The state of America's future retirement landscape is cause for great concern. According to calculations by the Center for Retirement Research at Boston College the "retirement income deficit" for American households ages 32 to 64 is estimated to be roughly $7.7 trillion. In fact, 47 percent of workers in 2017 reported the total value of their entire household's savings and investments, excluding the value of their primary home and any defined benefit plans, were less than $25,000, while 24 percent had less than $1,000.

Workplace Retirement Plans

Access to workplace retirement plans are critical for building retirement security. It is widely accepted today that workplace retirement plans and 401(k)-type plans, including those sponsored by state and local governments, have become the primary retirement savings vehicles for many Americans. Yet, only about half of workers in the private sector have access to such plans, and the numbers have only marginally changed over four decades. The Center for Retirement Research found that access to a workplace retirement savings plan or pension is second only to having a job as the most important factor in helping moderate-to-low income individuals build retirement security.

Any tax reform proposal should improve incentives for employers to establish or maintain work-place retirement saving plans. Retirement tax incentives could be better targeted to encourage savings from those less likely to save. Existing incentives are generally more generous to higher-income taxpayers who are less in need of assistance to save, while smaller incentives go to low-income and middle-income taxpayers who are most likely to respond to the incentives and thus benefit most from them.

Accordingly, AARP believes that retirement savings incentives should ensure (1) the tax benefits are progressively and broadly distributed to result in greater net savings than in the current tax code and (2) tax benefits are better targeted to low- and middle-income people who are less likely to increase their savings without the incentive.

Recently, proposals have emerged to shift retirement tax incentives toward Roth accounts. Under Roth accounts, taxpayers pay income taxes upfront on their contributions and all earnings are exempt from future taxation. Roth accounts are a valuable option for some retirement savers. But, AARP believes any proposals to make significant changes to the retirement incentives currently available must be thoroughly evaluated and debated. Congress should engage in a robust analysis of the implications of such proposals to retirement savings before pursing policies that could limit taxpayer savings options or inadvertently discourage saving behavior.

AARP supports effort to expand workplace savings opportunities, so that more Americans can save for retirement more effectively. Workers are 15 times more likely to save for retirement if they have access to a workplace savings plan. AARP supports automatic IRA legislation, which would provide an easy and low-cost method for employees to save in an IRA through payroll deduction.

Additional Improvements to Retirement System

In addition to expanding access to workplace retirement savings plans, tax reform affords a constructive opportunity to enact other needed improvements to enhance retirement savings and income security. For example, the growing importance of individual account savings plans has raised questions about the ability of individuals to make effective savings and asset allocation decisions that will lead to a financially secure retirement. Evidence shows that many individuals when faced with these complicated decisions will not take any action. AARP believes all plans should be encouraged to adopt automatic saving features. In addition, plans should be encouraged to use default investments made up of index funds and similar low-fee investments so that more money goes to building plan balances. An automatic escalation feature can also help increase contributions over time. These steps will improve savings and the overall economic security of future retirees.

AARP also supports legislation that would provide individuals with a better understanding of the lifetime value of their 401(k) plan assets by providing a yearly benefit statement that includes a conversion of their total accrued benefits into a monthly dollar amount as if they had opted to receive a lifetime annuity. This conversion would help provide a more meaningful long term perspective to 401(k) plan participants by giving them a more accurate picture of the lifetime value of their plan, thereby helping them make better decisions about how much they may need to save and how best to manage their retirement assets.

We also are mindful of and urge Congress to protect the promises made to millions of workers and retirees who depend on defined benefit plans for their retirement security. Some employers have started to wind down these plans through risk-shifting -- often called “derisking” -- but neither Congress nor the oversight agencies have put forth guidance to protect workers and retirees during the transition. Retirees who already have elected lifetime annuity payments should not be enticed into inappropriate lump sums. In addition, Congress in 2014 permitted multiemployer pension plans to seek cuts in the earned pensions of retirees without first seeking adequate prospective changes for employers and current employees. We strongly believe Congress can best ensure retirement security by protecting promises already made and earned, especially for vulnerable retirees and their families.

There are a variety of other proposals that also could be combined to expand and improve retirement savings. Two consequences of the shift away from defined benefit to defined contribution plans are (1) the loss of automatic life annuities through employer-based plans and (2) the loss of spousal consent for distributions from these plans. AARP believes more 401(k) plan sponsors should offer fixed life annuities as a distribution option. Adding spousal consent requirements could also increase the proportion of workers taking distributions in the form of annuities and enhance women’s retirement security. Numerous groups, including AARP, support the creation of model small employer pools to expand access to these features.

The Government Accountability Office has issued several reports recommending strengthened rules for workers’ retirement monies when workers change jobs, including automatic roll-overs to other retirement plans and improved default investments for small accounts. Further, as Americans live longer, retirement savings policy should encourage lifetime income payment streams.

We do not support legislative proposals, such as mandated electronic disclosure, that would undermine important consumer disclosures. Even in the digital age, many plan participants prefer to receive paper disclosures of their retirement information and benefit rights. According to research sponsored by the TIAA Institute, participants found that print “encouraged a more systematic, deeper reading style compared to online format.” The research concluded that most participants tended to skim online material, whereas those who read written content gained a more thorough understanding. Congress should maintain longstanding consumer protections that provide participants with the information that they need in the form they want to receive it.

Retirement Provisions Affecting Older Americans

Long-term wage stagnation and low levels of retirement savings underscore the critical importance Social Security plays, and will continue to play, in the retirement security of both current and future generations of Americans. For older Americans, including middle-class families, Social Security is their primary source of retirement income. For nearly all Americans, Social Security is the only source of retirement income guaranteed to last a lifetime and keep pace with inflation. AARP believes that given the growing need and heavy reliance on Social Security, particularly for middle income families, the taxation of Social Security benefits should be corrected.

Beginning in 1984, Congress made up to 50 percent of Social Security benefits subject to federal income tax for those with adjusted gross income exceeding thresholds of $25,000 for single filers and $32,000 for married couples. In 1994, Congress increased the amount of Social Security benefits subject to federal income tax by making up to 85 percent of benefits taxable when beneficiaries' annual modified adjusted gross income exceeds $34,000 for single filers and $44,000 for married couples. These thresholds, both of which include a marriage penalty, are not indexed for inflation. Today more than one in three Social Security beneficiaries age 65 and older are affected by some taxation of Social Security benefits, and the number will continue to increase because of the lack of threshold indexation.

In addition, AARP also supports retention of the extra standard deduction for those 65 or older. The additional standard deduction allows more seniors to remain below the tax filing thresholds, simplifies filing for millions who do owe taxes, and helps those non-itemizers at modest income levels maintain more of their retirement income -- funds that will be needed to last through their retirement years. Without the additional standard deduction, a revised tax code is likely to result in a disproportionate adverse tax impact on older Americans with modest income.

Overall, AARP believes that a well-constructed fabric of tax and pension rules is essential to help Americans save for their retirement and build on the solid foundation of Social Security. The evidence emerging after enactment of the Pension Protection Act of 2006 has made it clear that taxpayers will benefit from positive incentives such as automatic default features. Indeed, these enhancements have resulted in millions of new retirement accounts, millions of new savers and billions more dollars saved. This success demonstrates both the effectiveness and the importance of well-constructed tax and pension policies to encourage Americans to save, but more can and should be done to expand access to retirement plans.

Once again, AARP would like to thank Chairman Hatch and Ranking Member Wyden for the opportunity to provide comments on the important role tax incentives play in promoting and securing the health and financial security of millions of Americans and their families. If you have any questions or need additional information, please feel free to contact me, or have your staff contact Jasmine Vasquez of our Government Affairs staff at 202-434-3711 or jvasquez@aarp.org.

Sincerely,

Joyce A. Rogers

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Government Affairs