RCS
RETIREMENT CONFIDENCE SURVEY®

2014 RCS FACT SHEET #3

SAVINGS AND TAX PREFERENCES

Amid federal budgetary concerns and questions about the efficacy of the tax preferences currently provided to workplace retirement savings plans, some have proposed changing those preferences. The 24th annual Retirement Confidence Survey (RCS) asked workers how they would respond to some possible changes.

Tax Deductibility of Retirement Plan Contributions

Respondents to the 2014 RCS were asked how they would respond if current tax law were changed such that all employment-based retirement savings employee contributions were made on an after-tax basis, with those contributions and subsequent earnings no longer subjected to additional federal taxes—basically transforming the current 401(k) structure to a Roth 401(k) approach.

Given an opportunity to pay taxes on their retirement savings contributions now, rather than later—and to forgo taxation on accumulated earnings on those contributions—two-thirds (65 percent) of plan participants say they would continue to contribute at their current rate(s), while 16 percent report they would increase their current contribution to the plan.

Just 10 percent indicate they would reduce the amount they contribute to the plan, and 5 percent say they would stop contributing altogether. Though the likelihood of saying they would change their contribution appears unrelated to household income, about 1 in 10 of the lowest-income group (albeit a small sampling size) indicated an intention to stop contributing under these circumstances.

Many of those who said they would reduce or eliminate their plan contributions maintain that they would continue to save the same amount somewhere else (75 percent). A much smaller percentage said they would reduce the total amount they save (14 percent), while only a very few say they would stop saving that amount altogether (8 percent).

The Impact of the Match

A critical component of savings adequacy in many workplace retirement plans is the employer match, which can represent 50 percent or more of the contributions made to these accounts.

Respondents were also asked how they would respond if, in addition to the Roth change outlined above, their employer no longer made matching contributions to their savings account. Perhaps reflecting an awareness of the impact that loss might make to their personal savings balances, one-quarter (24 percent) said they would increase the amount they contribute, though 41 percent of plan participants indicated they would continue to contribute at the current level.

One in 10 each states they would reduce the amount they contribute to the plan (10 percent) or stop contributing altogether (12 percent).

Once again, many of those who would reduce or eliminate their plan contributions as a result of the elimination of the employer match and the change in tax treatment maintain that they would continue to save the same amount in total by saving the amount they no longer save in the plan somewhere else (77 percent). Only a small minority say they would reduce the total amount they save (7 percent) or would stop saving that amount altogether (10 percent).