

***“There’s quite a debate among economists about how best to increase those saving rates. I’ll just point to one direction that was included in the recent pension bill that the Congress passed and the President signed, which is to allow opt-out 401(k) programs among employers.***

***We have a lot of evidence that people — if they’re required to opt out of a savings program, that the inertia will win out, and they’ll save more. And that’s really one of the ways in which we probably could increase saving at the private level.”***

***-The Honorable Ben S. Bernanke, Chairman, Board of Governors of the Federal Reserve System before the Committee on the Budget, U.S. House of Representatives, February 28, 2007***

## Summary

The proposition that public policies can and should be used to encourage retirement saving among middle- and lower-income households commands broad, bi-partisan support. Perhaps the most promising recent development in this area has been the rise of the automatic 401(k). Plan sponsors and policy makers are increasingly interested in using automatic or "opt out" 401(k)s to promote retirement security among rank-and-file employees. Because these workers also need meaningful financial incentives to save, the Saver's Credit, which interacts constructively with automatic 401(k) features, is specifically targeted to help them.

The Pension Protection Act of 2006 (PPA) took significant steps to encourage the use of automatic 401(k)s and the Saver's Credit. However, much remains to be done. This policy brief describes the automatic 401(k) and the Saver's Credit, assesses the effects of the recent legislation, and outlines the next steps needed to promote retirement saving for middle- and lower-income workers, focusing on four initiatives:

- Fulfilling the potential and expanding the implementation of the automatic 401(k);
- Creating automatic IRAs for the 75 million workers who have no employer retirement plan;
- Expanding the Saver's Credit, making it refundable, and converting the credit to a flat-rate match; and
- Changing current rules that penalize saving by limiting eligibility for government programs based on 401(k) or IRA savings.