Federal Saver's Match Could Benefit Millions of Low- to Moderate-Income Americans

New provision has promise but will require collaboration from industry and government

In 2022, Congress passed a suite of retirement provisions commonly referred to as SECURE 2.0, which included a federal matching contribution for low- to moderate-income workers who contribute to a retirement savings account. Preliminary estimates indicate that nearly 22 million Americans could benefit from this so-called Saver's Match,[1] which is scheduled to take effect in tax year 2027.

How will the Saver's Match work?

Eligible taxpayers will be able to claim a government match for certain retirement account contributions. The maximum match is $1,000 per person (up to $2,000 per married couple filing jointly). Joint filers earning $41,000 or less ($20,500 or less for single filers) qualify for the maximum match rate of 50%. The calculation for those earning between $41,000 and $71,000 ($20,500 and $35,500 for single filers) will involve multiplying retirement account contributions of up to $2,000 by a credit rate determined by modified adjusted gross income (MAGI). Once the match amount is determined, the match will be deposited directly into the taxpayer's retirement account.[2]

How is the Saver's Match better than the current Saver's Credit?

The Saver's Credit—a nonrefundable tax credit that is being replaced by this approach—is the wrong tool for low- to moderate-income people who typically owe little to no income tax. Because a nonrefundable credit only offsets tax liabilities, it can be claimed only by those who owe taxes and can only reduce to zero the taxes they must pay. The data bears out the problem with the Saver's Credit approach: In 2021, only 5.7% of taxpayers claimed the credit, with an average credit amount of $191.[3] The credit suffers even further from a lack of awareness among low-income savers and from so-called rate cliffs that severely limit the number of taxpayers who qualify for the most generous rate (50%).

The Saver's Match is designed to overcome these hurdles in a number of ways:

1. **No tax liability required.** The match amount is deposited directly into savers' retirement accounts regardless of whether they must pay any income tax, meaning that more people can take advantage of the match than do so with the Saver's Credit.
2. **Gradual phase-out.** Unlike the Saver's Credit, with its abrupt changes in the amount a taxpayer is credited depending on income, the Saver's Match phases out gradually once a taxpayer exceeds the MAGI for a full 50% match. (Note: Regulations for calculating MAGI and the corresponding credit rate have not been drafted yet.) This incremental phase-out should increase the average match because more taxpayers will qualify for more generous rates.
   - For example, the maximum rate of 50% is available to taxpayers with MAGIs of $41,000 or less for those married filing jointly. A married taxpayer earning $41,000 and making $2,000 in eligible contributions would be eligible for a $1,000 match. Joint filers making more than $41,000 would see gradually declining matches as their income increases to $71,000.
3. **Promotion requirement.** SECURE 2.0 requires the U.S. Department of the Treasury to promote the Saver's Match, which should increase awareness and the number of claimants.
4. **Higher average credit.** For those who can save, the average match will be higher than the average credit amount. In addition, larger matching funds should create an additional incentive for taxpayers to apply.

Implementation challenges

The Saver's Match is operationally complex, and successful implementation will require a significant effort from government and industry. There are challenges throughout the process, including:

1. Identifying the taxpayers who could qualify and creating an awareness campaign.
2. Streamlining the application process to reduce the burden on individuals and ensure that everyone who qualifies can easily file for the match, including those who do not typically file their taxes.
3. Designing and creating the infrastructure for the match money to move from the U.S. Treasury to retirement accounts.
4. Creating a system that reconciles changes that savers might make between the time they file taxes and receive the match money, such as switching employers and/or closing a retirement account.

Legal limitations

In addition to the implementation challenges, several provisions of the Saver's Match statute will require thoughtful engagement.

1. **Roth exclusion.** Contributions to a Roth individual retirement account (IRA) or Roth plan account qualify for the match; however, the match money cannot be deposited into a Roth IRA or plan account because the match will be structured as a pre-tax traditional contribution that will be taxed as ordinary income when withdrawn. Roth accounts, in contrast, are funded with after-tax dollars and are generally not taxed upon distribution. This provision means that for savers who have only a Roth (for instance, participants in a state-facilitated auto-IRA program), providers will either need to set up a second traditional IRA or plan account or find another creative solution to ensure that the match money gets to every eligible claimant.
2. **Voluntary participation by plan sponsors.** Taxpayers filing for the match must provide their retirement account or plan information; however, the statute does not require the entity holding the account—the plan sponsor or custodian—to accept the funds. If the deposit is not accepted, the saver has no choice but to open a new traditional IRA—one that will accept the deposit.
3. **Claw-back provision.** Eligible individuals who take early distributions from their account that exceed the amount of the saver's matching contribution could be subject to additional tax. This provision could be problematic for individuals who use their retirement account for emergencies.
4. **Excludes ABLE accounts.** Achieving a Better Life Experience (ABLE) accounts, which provide tax-advantaged savings to people with disabilities, are not eligible savings vehicles for the Saver's Match. ABLE account holders are currently eligible for the Saver's Credit, so when the Saver's Credit sunsets in 2025, ABLE account holders will neither receive a credit nor qualify for the match.

Next steps

With these implementation challenges in mind, industry representatives and federal regulatory agencies have limited time to design and build a process that works for savers, taxpayers, and businesses. The Saver's Match will be a success for savers if the target population is aware of the benefits, saves in a qualified retirement account in 2027, and claims the funds through a streamlined application process in 2028. For industry and government, the program's success will rest on designing and building the back-end infrastructure to move the match money from the U.S. Treasury to retirement accounts—and ensuring that plan sponsors and custodians can, and will, accept funds in 2028.

The task is complex, but if implementation is successful, government matching funds will provide a significant boost to the retirement savings of millions of Americans.

Endnotes

1 C. Copeland, "Sizing the Market for the Saver's Match" (Employee Benefit Research Institute, Feb. 29, 2024), https://www.ebri.org/content/sizing-the-market-for-the-saver-s-match.

2 Joint Committee on Taxation, "General Explanation of Tax Legislation Enacted in the 117th Congress" (December 2023), https://www.jct.gov/getattachment/90655774-4645-4790-9d20-4874ce634234/JCS-1-23.pdf.

3 B. McDermott, "The Retirement Savings Contribution Credit and the Saver's Match" (U.S. Congressional Research Service, Dec. 15, 2023), https://crsreports.congress.gov/product/pdf/IF/IF11159.

For more information, please visit: pewtrusts.org

The Pew Charitable Trusts

Contact: Omar A. Martinez, communications officer
Email: omartinez@pewtrusts.org
Project website: pewtrusts.org/retirementsavings