The State of Retirement

President Obama unveiled his newest proposal for retirement reform, complementing the MyRA starter retirement program he proposed in 2014. His current proposal intends to expand access to employer-based retirement savings vehicles for 30 million workers through tax code modifications, automatic enrollment features, more lenient eligibility requirements, and access to IRA based programs in the absence of employer-sponsored plans.

Looking back at 2014

In his 2014 address, President Obama announced his plans for a government-sponsored starter retirement program aimed at helping Americans begin building a nest egg for retirement. The next day he signed a presidential memo directing the Department of the Treasury to create what has been deemed "MyRA", short for My Retirement Account. Since then, it has received mixed reviews. MyRA was designed as a stepping stone for workers, without access to an employer sponsored plan, who currently have little-to-no retirement savings. MyRA accounts are solely invested in U.S. Government savings bonds which earn the same interest as the Thrift Savings Plans' Government Securities Investment Fund (G Fund) offered to Federal workers. Once an individual's account reaches $15,000 or is in existence for 30 years, a rollover to a Roth IRA is required. Admittedly, a MyRA account will not produce nearly enough income for a financially secure retirement. Now in 2015, the President is making a second attempt at helping low- to middle-income Americans save for retirement.

Proposed Reform

The President prefaced the 2015 State of the Union Address with a White House Fact Sheet, released January 17th, entitled "A Simpler, Fairer Tax Code That Responsibly Invests in Middle Class Families". The Fact Sheet outlines the following proposals to reform retirement savings for Americans.[1]

- Employers with more than 10 employees, not currently sponsoring a retirement plan, would be required to automatically enroll employees into an IRA. These "Auto-IRAs" allow workers to start saving without the need to sort through "a host of complex options". The fact sheet cites that automatic enrollment has been proven to increase participation; employees typically do not opt out, although they have the option.
- To lessen the burden on small businesses, employers with less than 100 employees who either sponsor a plan or enroll employees in an Auto-IRA would receive a tax credit of at least $3,000.
- Retirement plan access would be expanded to employees that have worked at least 500 hours in the past three years for the employer.
- "Loopholes" in the tax code that have allowed wealthy investors to use tax-preferred retirement plans as tax shelters will be eliminated.

[1] Fact Sheet: A Simpler, Fairer Tax Code That Responsibly Invests in Middle Class Families. Office of the Press Secretary. The White House. 17 January 2015. Retrieved 21 January 2015.

2016 Budget Proposal

While retirement reform was not a key topic in President Obama's 2015 State of the Union Address, it is prevalent in his 2016 Budget Proposal, mirroring the proposals outlined in the White House Fact sheet. On the surface, President Obama's proposal to expand retirement plan coverage and help the American worker to save for retirement is admirable. While his intentions are good, industry professionals feel his proposal "misses the mark" with the inclusion of previously failed proposals such as the $3 million savings cap and double taxation for those above the 28% tax bracket.[2] Industry experts from the American Society of Actuaries and Pension Professionals (ASPPA), the ERISA Industry Committee (ERIC), and the Investment Company Institute (ICI) voiced their opinions, emphasizing the negative effect these reforms could have on the retirement landscape.

ASPPA

As Judy Miller, Director of Retirement Policy for the American Society of Actuaries and Pension Professionals (ASPPA), points out, "these re-proposals are particularly disappointing because the President otherwise expanded on his proposals to encourage the offering of workplace retirement plans."[3] She refers to encouraging parts of the budget in which the President proposes to:

- Require employers with more than 10 employees to offer a retirement savings vehicle, either an employer-sponsored plan or the Auto-IRA program.
- Enhance tax credits for employers who offer a retirement savings vehicle.
- Triple the start-up credit for employers who offer qualified retirement plans and offer an additional $1,500 credit to small businesses that add an automatic enrollment feature to a preexisting 401(k) plan.

With what appears to be a mutual sentiment among industry experts, Miller questions, "Why couple these proposals to expand coverage with proposals that would discourage small-business from maintaining the 401(k) plans they have now?"[3]

ERIC

Annette Guarisco Fildes, President and CEO of The ERISA Industry Committee (ERIC), explains that the President's proposed plan "would create a disincentive for retirement savings as well as a compliance nightmare for plan sponsors and retirement savers alike." She alludes to the existing strict limits imposed on annual benefits and contributions made by both employers and employees, recommending that Policymakers consider ways to expand savings opportunities, not discourage saving. Also opposed by ERIC is the return of the proposal to allow the Pension Benefit Guaranty Corporation (PBGC) to correlate risk-based premiums with its determination of a plan sponsor's creditworthiness.[2]

[2] Cornfield, Jill. Cap on Savings Raises Industry Hackles. PlanAdviser. 3 February 2015.
[3] Miller, Judy. President's Budget Proposal: A Mixed Bag. NAPA Net. 3 February 2015.

ICI

The Investment Company Institute (ICI) recently released results of a study in which 3,000 respondents, with and without retirement savings accounts, were surveyed regarding their views on defined contribution plan saving.[4] Results of their study show:

- 88% of households surveyed disagree with the notion that the government should take away the tax advantages of defined contribution (DC) accounts.
- 90% disagree with reducing the amount that an individual can contribute to a DC account.
- Among household with DC accounts, 8 in 10 households agree that the tax treatment of their retirement savings is a big incentive to contribute.
- Among households not contributing to a DC account, more than 8 in 10 rejected the idea of taking away or reducing the current tax treatment of DC accounts.

ICI President and CEO, Paul Schott Stevens emphasizes, "Past budget and tax reform initiatives have proposed to limit the benefits of tax deferral on retirement plan contributions or cap the amount Americans can save in their 401(k)s, individual retirement accounts, and pensions. This ICI survey reaffirms our consistent finding that Americans strongly support current tax incentives for retirement saving and want those benefits to be preserved. All workers, regardless of income, benefit from the current tax treatment for retirement plan saving, and we urge policymakers, as they consider legislation in this area, not to curtail these important incentives to save for retirement."[4]

Conclusion

The President's proposed reforms to retirement savings are a double-edged sword. While his intent to expand savings opportunities is commendable, his approach has the potential to deter retirement savings and reduce retirement security for the American worker. Luckily, the likelihood of this proposal passing without a single change is slim to none. We can only hope that policymakers will heed the warnings of industry experts and expand on the opportunity to enhance the retirement landscape.

[4] Moore, Rebecca. Americans Want to Preserve Tax Incentives of Retirement Plans. Plan Adviser. 20 January 2015.