

Client Bulletin

President Obama's Pension & Retirement Planning Reform Proposals

During the campaign, President Barack Obama made a number of pension reform proposals. He also, more recently announced various reforms focused on worker's retirement savings. The issues he addressed are likely to be immediate priorities for his administration. His proposals have reflected broad concern about the current U.S. retirement system; specifically the breadth of retirement plan coverage, the adequacy of benefits; access of personal accounts, the transparency and disclosure of fees; the solvency of certain DB plans and, if necessary, who must bear the cost of winding those plans up.

The Problem

- **Insecure Retirement Savings:** Retirement savings are near a historic low and 75 million working Americans lack employer-based retirement plans. President Obama has a stated belief that too many companies have dumped their pension obligations, leaving workers in the cold.

Their Platform to Strengthen Retirement Savings

- **Create Automatic Workplace Pensions:** (aka the "Automatic IRA") The Obama-Biden retirement security proposal will automatically enroll workers in a workplace pension plan. Under their plan, employers who do not currently offer a retirement plan, will be required to enroll their employees in a direct-deposit IRA account that is compatible to existing direct-deposit payroll systems. Employees may opt-out if they choose. Experts estimate that this program will increase the savings participation rate for low and middle-income workers from its current 15 percent level to around 80 percent. Obama will also require that businesses choose a default investment plan which has an investment portfolio similar to that of the federal Thrift Savings Plan, with low-management fees and does not include company stock.
- **Suspension of RMD:** Obama has proposed a temporary suspension of the Required Minimum Distribution rule, which currently requires retirees to withdraw money out of their IRA or 401k accounts once they reach 70 ½. Suspending the withdrawal requirements would allow people, if they choose, to keep money in their accounts in an effort for them to recoup some of their losses when the market recovers. The plan would also waive taxes on withdrawals made after age 70½.

- **Enhanced Hardship Withdrawals:** Obama proposes allowing workers to make hardship withdrawals from their 401k or IRA of up to 15% of their balance. A withdrawal of up to \$10,000 would not be subject to the 10% early withdrawal penalty, but would be subject to normal income tax.
- **Eliminating Income Tax:** Another reform proposal may include the elimination of all income tax for seniors making less than \$50,000 a year. This would provide an immediate tax cut averaging \$1,400 dollars and relief from the burden of filing tax returns.
- **50% Match:** Obama has supported a 50% match of the first \$1,000 of savings for families earning less than \$75,000 a year. The savings match will be deposited into designated personal accounts.
- **Require Full Disclosure of Company Pension Investments:** Obama and Biden will support initiatives in an attempt to ensure that all employees who have company pensions receive detailed annual disclosures about their pension fund's investments. These disclosures must be in clear and simple language and include the amount of fees incurred and investments made.
- **Reform Corporate Bankruptcy Laws to Protect Workers and Retirees:** Current bankruptcy laws protect banks before workers. Obama will seek to protect pensions by putting promises to workers higher on the list of debts that companies cannot shed; ensuring that the bankruptcy courts do not demand more sacrifice from workers than executives; telling companies that they cannot issue executive bonuses while cutting worker pensions; increasing the amount of unpaid wages and benefits workers can claim in court; and limiting the circumstances under which retiree benefits can be reduced.
- **Expand Retirement Savings Incentives for Working Families:** Obama and Biden will likely support legislation to ensure savings incentives is fair to all workers by creating a generous savings match for low and middle-income Americans. Their plan will match 50 percent of the first \$1,000 of savings for families that earn less than \$75,000. The savings match will be automatically deposited into designated personal accounts. Over 80 percent of these savings incentives will go to new savers.

976 Delaware Avenue • Buffalo, New York 14209
 (716) 883-9595 • (800) 783-1086 • FAX (716) 883-8048

214 West Fifth Street • Jamestown, New York 14701
 (716) 484-2402 • (877) 484-2402 • FAX (716) 484-2279

www.couriercapital.com