

ASPPA *asap*

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President Obama's FY2010 Budget Includes Retirement Savings Proposals

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President Obama recently released an outline of his fiscal year 2010 budget, *A New Era of Responsibility: Renewing America's Promise* (released on February 26, 2009 and available at <http://www.whitehouse.gov/omb/budget/>). The full budget will be made public in early to mid-April.

The President projects a budget for FY2010 of about \$3.6 trillion. The budget assumes about \$2.2 trillion in tax cuts over a ten year period. These include extending most of the Bush tax cuts and providing some additional tax relief for low and moderate income taxpayers. The budget also would let the Bush tax cuts expire after 2010 for single taxpayers making more than \$200,000 (and couples making more than \$250,000). For example, the top individual tax rate of 35 percent would rise to 39.6 percent in 2011. Improvements to retirement arrangements that were part of the Bush tax cuts will not expire after 2010 because the Pension Protection Act of 2006 (PPA) made these enhancements permanent.

The budget also includes two ASPPA supported proposals: payroll-deduction individual retirement accounts (IRAs) for workers whose employer does not sponsor a qualified retirement plan and an expansion of the Saver's Credit. These proposals will expand retirement savings and strengthen the private retirement system.

▲ Automatic IRAs

Almost one out of every two workers – or 75 million working Americans – have no employer-sponsored retirement plan. This makes it challenging for half of our workforce to save for retirement. Therefore, the budget proposal would require employers that do not offer a retirement plan to enroll employees automatically in a direct-deposit IRA program. Employees would have the ability to opt out of the savings arrangement.

The budget outline provides very few details on the automatic IRA proposal. However, it is our understanding that the proposal is based on the Retirement Security Project's (RSP)

automatic IRA proposal. See the RSP fact sheet on automatic IRAs at http://www.retirementsecurityproject.org/pubs/File/RSP_AutoIRAv12.pdf. Under the RSP proposal, employers with less than 10 employees or employers that have been in business less than two years would be exempted from the automatic IRA requirements. To help with any administrative costs in setting up the automatic IRA arrangement, small employers (up to 100 employees) would be entitled to a tax credit for the first two years that they maintain a payroll deposit arrangement. The credit would be \$25 for each employee who uses the arrangement, up to a total of \$250.

▲ Expansion of the Saver's Credit

The Saver's Credit is a tax credit for certain low and moderate-income individuals who contribute to workplace retirement plans and IRAs. The Saver's Credit is used by more than five million Americans annually. However, many Americans are unable to take advantage of the credit because they do not have any tax liability, or earn more than the AGI eligibility limit (\$55,500 for families/ \$27,750 for single taxpayers). Therefore, the budget proposes making the credit fully refundable so that all Americans can benefit from the credit, and expanding eligibility to families earning up to \$65,000 per year. The current non-refundable Savers Credit ranging from 50% down to 10% of the first \$2,000 of contributions would be replaced with a uniform refundable credit of 50% of the first \$1,000 for all eligible savers.

▲ Mandatory Automatic Enrollment

The budget appears to propose that all employer-sponsored retirement plans – not just payroll deduction IRA's - be required to automatically enroll employees (with the ability to opt out). The ASPPA Government Affairs Committee is currently evaluating the merits of this new proposal.

The budget did not specify how these proposals would be

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paid for. However, the cost of the proposals is estimated to be \$13.9 billion over five years, and \$55.2 billion over ten years.

ASPPA will be following these proposals, and working to shape resulting legislation to strengthen the private retirement system.