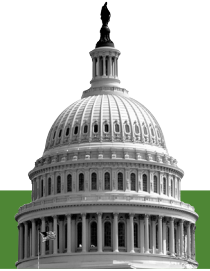


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WASHINGTON UPDATE

Hype and Reality—401(k) Plans and Guaranteed Retirement Accounts

by Judy A. Miller, MSPA

Recently, the Republican Savings Solutions Group (including Minority Leader Boehner, ranking members of the committees of jurisdiction Camp and Kline, and others) sent a letter to Secretary Solis of the Department of Labor and Secretary Geithner of the Department of the Treasury. The letter expressed “strong opposition to any proposal to eliminate or federalize private-sector defined contribution pension plans, such as 401(k)s, or impose burdensome new requirements upon the businesses, large and small, who choose to offer these plans to their employees.”

ASPPA applauds the sentiment and appreciates the strong statement of support of the private pension system. However, ASPPA members have asked if this letter is a strong, timely response to an immediate, real threat to the system—or just politics as usual. The answer is that the threat may not be immediate, but it is real (and the letter also was good politics). One thing is certain—we are living in interesting times, and we can't afford to get caught napping.

Middle Class Task Force

Earlier this year, Vice President Biden spoke about the first “Annual Report of the White House Task Force on the Middle Class.” Included in the report are recommendations for improving retirement coverage for middle class families. The Vice President summarized the recommendations, including the administration's proposal for



automatic IRAs and an expanded, refundable Saver's Credit (both proposals that ASPPA supports), as well as “guaranteed accounts.”

This terminology is reminiscent of the October 2008 House Education and Labor Committee hearing on the impact of the financial crisis on retirement savings. One of the panelists, Professor Teresa Ghilarducci, spoke about her recommendation that the existing system and its income tax exclusion for employer-provided benefits be replaced with a \$600 tax credit for contributions to government-run retirement accounts that would provide a guaranteed rate of return (3% above inflation). This proposal was referred to as “Guaranteed Retirement Accounts,” and it received a lot of coverage in the ensuing down-market, 401(k)-bashing frenzy.

There has been little or no public discussion of the proposal on Capitol Hill since that hearing, and the administration's budget proposals have not included these accounts. (In fact, the most recent proposed budget included a doubling of the limit on the tax credit designed to encourage small employers

to set up qualified retirement plans and SIMPLE plans, along with auto-IRA and refundable Saver's Credit proposals.) However, the report from the middle class task force indicates that the concept is still under active consideration within the administration. Under the heading "Another Option: Safe Investment Choices," the report suggests that workers should have safe, inflation-protected investment options. Later on in this section, the creation of Guaranteed Retirement Accounts (GRAs) is noted as one approach to providing this alternative. The report goes on to assure readers that "GRAs would not replace Social Security" and recommends further study.

Guaranteed Retirement Accounts

The recommendation for "further study" of Guaranteed Retirement Accounts is not a clear endorsement, but it does indicate the concept has appeal to at least some members of the task force. A centerpiece of the proposal is the notion that the current tax incentives for employer-sponsored defined contribution plans—especially 401(k) plans—only benefit the rich [see "401(k) Plans Under Fire – Blaming the Drought on the Well," *The ASPPA Journal*, Spring 2009]. The proposed "solution" is to convert the current exclusion to a uniform refundable credit.

So, although the threat to the tax incentives underpinning the current 401(k) system is not imminent, it is real. The ASPPA Government Affairs staff and volunteers are explaining to Congress how the current system really works to provide retirement security for millions of American workers—in real time, with real employers and employees—and we will continue to work to get this message out. The support of the membership through grassroots involvement and support of the ASPPA Political Action Committee (PAC) is critical to our success.

Surprise Twist

One amusing twist to this year's saga is the unfortunate (for EBSA and Treasury) coincidence of the Middle Class Task Force Report and the RFI on Lifetime Income Options issued jointly by the DOL and Treasury. No one who has been involved in retirement policy or practice read the RFI as anything but an honest attempt to gain good information about how to help retirees in a defined contribution world convert retirement savings into a secure retirement income, but others saw the RFI as a threat. Believing the RFI was a front for converting 401(k) accounts into government-issued debt, hundreds of workers responded to the RFI suggesting in no uncertain terms that the


government keep their hands off of 401(k) plans. [The response by the ASPPA Government Affairs Committee (GAC) to the RFI is available on the ASPPA Web site at www.asppa.org/comments.]

Always Something

There are some who think control of the House may shift to Republicans this fall, in which case GRAs will likely not be a threat in the next Congress. Political winds can shift quickly, so we won't know until after November 2 how the House (or Senate) will look in 2011. One thing we do know is that it's always something. A key component of the Republican Savings Solutions Group's Savings Recovery Act (HR 2021) is to permanently increase IRA and SIMPLE elective deferral limits to the 401(k) elective deferral limit. (RSAs anyone?)

ASPPA GAC and PAC

ASPPA GAC and staff will continue to convey the real value of the employer-sponsored system to policymakers on the Hill and in the administration. We actively support proposals such as auto-IRAs and an improved Saver's Credit that will strengthen the system. But we are continually educating Congress about the threats that some well-intentioned proposals would pose to the system in the long-term. ASPPA PAC also plays a key role in this effort by allowing us to support members of Congress who share the goal of a secure retirement for American workers through the private employer-sponsored retirement system.

This year has been challenging, and we have a long way to go, but ASPPA will continue to work to strengthen and protect the employer-sponsored retirement system. 



Judy A. Miller, EA, MSPA, FSA, Chief of Actuarial Issues, joined the ASPPA staff in December 2007. Prior to joining the ASPPA staff, Judy served as senior benefits advisor on the staff of the US Senate Committee on Finance from 2003 to November 2007.

Before joining the congressional committee staff, Judy provided consulting and actuarial services to employer-sponsored retirement programs for nearly 30 years. A native of Greensburg, PA, she enjoyed living in Helena, MT from 1975 until she moved to Washington, DC in 2003. Immediately before leaving Montana, she was a shareholder in Anderson ZurMuehlen & Co., providing consulting services through its affiliate, Employee Benefit Resources, LLP (EBR). Prior to joining EBR, she was vice president of Hendrickson, Miller & Associates, Inc. for 15 years. Judy is a fellow of the Society of Actuaries, an MSPA with ASPPA and an Enrolled Actuary. (jmiller@asppa.org)

