

OBAMA ADMINISTRATION INITIATIVES FOR MIDDLE CLASS FAMILIES

RETIREMENT SECURITY

Establishing Automatic IRAs. Currently, 78 million working Americans—roughly half the workforce—lack employer-based retirement plans. Fewer than 60 percent of working heads of families were eligible to participate in any type of job-related pension or retirement plan in 2007. The Obama-Biden Administration will promote the establishment of a system of automatic IRAs in the workplace by requiring employers who do not currently offer a retirement plan to enroll their employees in a direct-deposit IRA unless the employee opts out. The contributions will be voluntary and matched by the Savers Tax Credit for eligible families. The Administration is also streamlining the process for employers to automatically enroll workers in 401(k) plans, which has been shown to boost participation, especially for low- and middle-income workers. New tax credits would help pay employer administrative costs and the smallest firms would be exempt.

Simplifying and Expanding the Saver's Credit. The struggle to save enough to ensure a secure retirement became particularly pronounced in the wake of the recent financial crisis, which delivered a major hit to the savings on which workers rely for their retirement security. The Administration proposes to help working families save for retirement by expanding and simplifying the Saver's Credit to match 50 percent of the first \$1,000 of contributions by families earning up to \$65,000 and providing a partial credit to families earning up to \$85,000. The Administration will also make this tax credit refundable to ensure that millions of additional middle-income families can take advantage of it even though they have no income tax liability.

Updating 401(k) Regulations to Improve Transparency and Reliability. A majority of American workers rely on 401(k)-style plans to finance their retirements, making it critical that the 401(k) system be safe, transparent, and well-regulated. Even workers who save significant amounts may see their returns eaten away by fees and expenses. We need to do more to give families better choices to reach a secure retirement. The Administration is:

- Improving the transparency of 401(k) fees to help workers and plan sponsors make sure they are getting investment, record-keeping, and other services at a fair price.
- Encouraging plan sponsors to make unbiased investment advice available to workers, helping workers avoid common errors that undermine retirement security, while providing strong protections against conflicts of interest.
- Promoting the availability of annuities and other forms of guaranteed lifetime income, which transform savings into guaranteed future income, reducing the risks that retirees will outlive their savings or that their retirees' living standards will be eroded by investment losses or inflation.
- Reviewing and requiring clear disclosure regarding target-date funds, which automatically shift assets among a mix of stocks, bonds, and other investments over the course of an individual's lifetime. Due to their rapidly growing popularity, these funds should be closely reviewed to help ensure that employers that offer them as part of 401(k) plans can better evaluate their suitability for their workforce and that workers have access to good choices in saving for retirement and receive clear disclosures about the risk of loss.