



AMERICAN BENEFITS
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MAJOR RETIREMENT PROPOSALS THAT HAVE SURFACED
IN CONNECTION WITH THE DEFICIT REDUCTION AND TAX REFORM DEBATES

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ISSUE	DESCRIPTION OF PROPOSAL(S)
<p>LIMIT VALUE OF DEDUCTIONS/EXCLUSIONS TO 28% BRACKET</p>	<ul style="list-style-type: none"> ➤ <i>President's FY14 Budget:</i> Limit the value of specified tax expenditures - including the exclusion for employee deferrals to defined contribution (DC) plans and IRA deductions - to 28%. Based on current tax brackets, the cap would impact married/joint filers with taxable incomes in excess of \$223,050, and individuals with taxable income exceeding \$183,250. Basis would be adjusted to take into account the partial taxation of the contributions.
<p>CREATE LIMITATION ON COMBINED TAX-ADVANTAGED RETIREMENT PLAN BALANCES</p>	<ul style="list-style-type: none"> ➤ <i>President's FY14 Budget:</i> Future employer or individual contributions to DC plans or IRAs, and future accruals under defined benefit (DB) plans, would be prohibited if an individual's total balance across tax-preferred accounts (including DB plans) exceeds an amount sufficient to finance an annuity of not more than \$205,000 per year commencing at age 62. Cap would be roughly \$3.4 million for a person retiring in 2013 at today's interest rates. But the cap will be far lower - both if interest rates return to historic averages and (even if rates remain low) for younger workers.
<p>REDUCE CAPS ON DC PLAN/IRA CONTRIBUTIONS</p>	<ul style="list-style-type: none"> ➤ <i>Bowles/Simpson; Domenici/Rivlin:</i> Annual contributions to DC plans by employees and employers would be capped at the lesser of 20% of earnings or \$20,000. [Current cap is the lesser of 100% of earnings or \$51,000, plus catch-up contributions.] Proposals appear to combine IRA and DC plan limits. ➤ <i>CBO Budget Options:</i> Reduce maximum employee contribution limits: (1) to \$14,850 for 401(k) and similar plans; (2) to \$4,500 for IRAs. Repeal catch-up contributions.

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ISSUE	DESCRIPTION OF PROPOSAL(S)
<p>REPLACE RETIREMENT SAVINGS EXCLUSIONS AND DEDUCTIONS WITH A REFUNDABLE TAX CREDIT</p>	<ul style="list-style-type: none"> ➤ <i>Gale/Orszag</i>: Repeal the exclusions for all employer and employee contributions to defined contribution plans and repeal the deduction for IRA contributions. Replace with a refundable tax credit that would only be available if deposited directly into (and retained in) the retirement plan or account (a “government match”). Revenue estimates not available and will depend on the rate of the credit; Gale asserts revenue neutral at 30% match level. Gale has stated that distributions will be fully taxed. [Note Orszag has proposed extending this approach to the employer-provided health insurance exclusion, the home mortgage deduction, and the charitable deduction.] ➤ [Note <i>Bowles/Simpson</i> and <i>Domenici/Rivlin</i> recommended (to varying degrees) that certain itemized deductions be replaced by a tax credit, but those proposals do <u>not</u> include retirement-related tax expenditures.]
<p>PLACE OVERALL CAP ON TAX EXPENDITURES</p>	<ul style="list-style-type: none"> ➤ <i>Feldstein/Feenberg/MacGuineas</i>: Retain all existing tax expenditures, but limit the value of total such expenditures any individual can claim to 2% of AGI. [Note, under one version, the tax expenditure limit would not apply to the tax rules that encourage saving and investment.]
<p>CONSOLIDATE RETIREMENT ACCOUNTS</p>	<ul style="list-style-type: none"> ➤ <i>Bowles/Simpson; Domenici/Rivlin; PERAB</i>: Consolidate 401(k), 403(b), and 457 plans (and perhaps SIMPLE plans and SEPs) into a single type of deferred compensation plan with one consistent set of rules.
<p>INTEGRATE IRA AND 401(K)-TYPE CONTRIBUTION LIMITS</p>	<ul style="list-style-type: none"> ➤ <i>PERAB</i>: Total combined contributions to 401(k)-type plans and IRAs would be capped at \$16,500. Non-deductible contributions to IRAs would no longer be allowed. [Today separate limits apply to 401(k) elective deferrals (\$17,500) and IRA contributions (\$5,500), plus catch-up contributions.]
<p>USE CHAINED-CPI TO CALCULATE FUTURE COLA ADJUSTMENTS</p>	<ul style="list-style-type: none"> ➤ <i>President’s FY14 Budget; Bowles/Simpson; Domenici/Rivlin; CBO Budget Options</i>: The C-CPI would be used to make future cost-of-living adjustments for most federal programs and tax provisions (including Section 415 retirement contribution caps). The C-CPI is an alternative developed by the Bureau of Labor Statistics that adjusts for “substitution bias” (the fact that consumers will forgo buying one item if a comparable cheaper item is available).
<p>REQUIRE EMPLOYERS TO PROVIDE AUTOMATIC ENROLLMENT IN A RETIREMENT PLAN</p>	<ul style="list-style-type: none"> ➤ <i>President’s FY14 Budget; PERAB</i>: Require most employers not already providing access to a qualified retirement plan to offer an automatic enrollment IRA with regular payroll deductions to their employees. [More expansively, HELP Chairman Harkin (D-IA) has proposed “Retirement USA Funds,” requiring employer contributions and lifetime income features.]

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LIMIT "STRETCH IRAS"	<ul style="list-style-type: none"> ➤ <i>President's FY14 Budget:</i> Eliminate the availability of "stretch" payments to beneficiaries of deceased IRA owners and retirement plan participants by requiring a non-spouse beneficiary to receive his or her inherited interest in the arrangement within five years of the death of the owner/participant (with exceptions for beneficiaries within 10 years of age of the decedent, disabled individuals, and minor children (until majority)).
ELIMINATE ESOP DIVIDEND DEDUCTION	<ul style="list-style-type: none"> ➤ <i>President's FY14 Budget:</i> Eliminate the deduction that C corporations may take for dividends paid on employer stock held in an ESOP.
PBGC PREMIUM INCREASES	<ul style="list-style-type: none"> ➤ <i>President's FY14 Budget; President's Deficit Reduction/Tax Reform Proposal; Bowles/Simpson:</i> Starting in 2015, the PBGC Board would set an increased level of PBGC premiums and take the plan sponsor's credit risk into account in setting premiums. President's FY14 budget assumes \$25 billion in additional premiums over next 10 years. ➤ <i>House (Ryan) FY14 Budget:</i> Reflects an additional premium increase, likely \$950 million over 10 years. ➤ <i>Senate (Murray) FY14 Budget:</i> Calls for risk-based premiums for companies' underfunded pension plans, (no figures provided).
RAISING REVENUE IN TAX REFORM	<ul style="list-style-type: none"> ➤ <i>Senate (Murray) FY14 Budget:</i> Proposes \$975 billion in deficit reduction by reducing or eliminating tax expenditures claimed by individuals. Budget offers options but does not identify which tax expenditures would be reduced or eliminated. ➤ <i>House (Ryan) FY14 Budget</i> proposes as much as \$4.6 trillion in elimination of unspecified tax expenditures, to finance a rate reduction. ➤ <i>President's Deficit Reduction/Tax Reform Proposal:</i> Proposes \$1.5 trillion of tax increases through tax reform, with most details unspecified. Proposal does state that no household making over \$1 million annually should pay a smaller share of its income in taxes than middle-class families pay (the so-called "Buffett rule").

Key:

- *Bowles/Simpson:* National Commission on Fiscal Responsibility and Reform – [The Moment of Truth](#) (12/10)
- *CBO Budget Options:* [Reducing the Deficit: Spending and Revenue Options](#) (3/11)
- *Domenici/Riolin:* Bipartisan Policy Center Deficit Reduction Task Force – [Restoring America's Future](#) (11/10)
- *Feldstein/Feenberg/MacGuineas:* NBER Working Paper – [Capping Individual Tax Expenditure Benefits](#) (4/11)
- *Gale/Orszag:* [Improving Opportunities and Incentives for Saving by Middle- and Low-Income Households, as updated](#) (4/06; updated 9/11)
- *House (Ryan) FY14 Budget:* House FY14 budget, as passed by House – [The Path to Prosperity](#) (3/13)
- *President's FY14 Budget:* [Budget of the United States Government, Fiscal Year 2014](#) (4/13)
- *President's Deficit Reduction/Tax Reform Proposal:* [Living Within Our Means and Investing in the Future](#) (9/11)

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- *PERAB*: President's Economic Recovery Advisory Board (Paul Volcker, Chair), [The Report on Tax Reform Options](#) (8/10)
- *Senate (Murray) FY14 Budget*: Senate FY14 budget, as passed by Senate - [Restoring the Promise of American Opportunity](#) (3/13)