

**Summary of the Provisions of
The Individual and Workplace Retirement Savings Promotion Act of 2005**
Representative Rob Portman

Helping Families Build Retirement Savings

- **Restoring Universal IRAs.** The legislation will once again make all Americans eligible to contribute to a tax-preferred individual retirement savings vehicle. The legislation will create Retirement Savings Accounts (RSAs) that would be structured like today's Roth IRAs (contributions would be after-tax but withdrawals in retirement would be tax-free). But unlike Roth IRAs, the bill's \$5,000 RSA would be available to Americans at all income levels. The rules governing pre-tax, deductible IRAs would remain as they are today.
- **Making Today's Retirement Savings Opportunities Permanent.** The legislation will make all of the retirement savings and pension reforms contained in the 2001 tax relief act -- from catch-up contributions to small business pension incentives to expanded IRAs and 401(k)s -- permanent. These important provisions are currently scheduled to sunset at the end of 2010.
- **Expanding the Saver's Credit.** As part of this effort, the bill will extend and make permanent the 2001 act's tax credit for low and moderate-income savers who contribute to a workplace retirement plan or IRA (which is currently scheduled to sunset at the end of 2006). The legislation will also expand income eligibility for this Saver's Credit. Moreover, because certain modest-income individuals eligible for the credit owe no tax liability, the legislation will make the Saver's Credit refundable. This refundable credit will be sent to the individual's workplace retirement plan or IRA so that it directly increases retirement savings.
- **Enabling Tax Refunds To Go Directly to Retirement Accounts.** The legislation will allow taxpayers to contribute some or all of any federal tax refund directly into their IRA through electronic means. This will enable individuals and families to boost their retirement savings with what can often be a significant payment each year.
- **Faster Vesting.** The bill will extend the shorter vesting periods for 401(k) matching contributions contained in the 2001 tax act to other employer contributions (such as profit-sharing contributions). This reduction in the vesting schedule from five years to three years will simplify the rules and assist today's mobile workers in building their retirement nest eggs.
- **Enhancing Pension Portability.** The legislation will ensure that workers moving between tax-exempt and for-profit employers can roll over their after-tax contributions and will permit direct rollovers from workplace retirement plans to RSAs. The legislation will also assist non-spouse beneficiaries in plans by allowing them to roll over their inherited benefits into an IRA.

Expanding Workplace Plans and Participation

- **Promoting Automatic Enrollment and Automatic Increase Designs.** Under automatic enrollment, individuals automatically participate in their employer's retirement savings plan unless they opt out. Some plans also have an "auto increase" feature whereby employee contribution levels increase automatically each year (unless workers opt out). These default strategies have increased participation and savings levels dramatically. The bill has a number of provisions to encourage such strategies. Employers that adopt auto enrollment, auto increase and an accelerated vesting schedule -- and that commit to a certain robust level of contributions for workers -- will receive relief from complex nondiscrimination testing rules. The bill will also clarify that automatic enrollment is not impeded by

state wage withholding laws and will direct the Department of Labor to provide guidance on appropriate default investments for auto enrollment arrangements.

- **Expanding Small Business Pension Coverage.** The legislation will make a number of improvements to existing SIMPLE and SEP plans to make these simplified pension designs even more attractive to small business. For example, small employers will be permitted to make additional contributions to SIMPLE plans on behalf of all workers and the bill will also conform the rules for matching contributions made to SIMPLE IRAs and SIMPLE 401(k)s.
- **Enhancing the Retirement Security of State and Local Government Employees and Military Personnel.** The legislation will facilitate helpful new pension designs for public safety workers and will improve the purchase of service credit rules that enable teachers and state and local employees to buy into a complete pension benefit in the jurisdiction where they end their careers. The bill will also clarify the status of Indian tribal government retirement plans as governmental plans. In addition, the legislation will make clear that guardsmen and reservists on active duty may continue contributing to their retirement plans if their employers pay their salary differential during their active service.
- **Expanding Access to Retirement Planning Services.** To assist individuals in making sound investment decisions and preparing for retirement, the legislation will allow employees to save for retirement planning services on a pre-tax basis through payroll deduction at the workplace.
- **Uniformity and Regulatory Simplification.** The bill will continue the simplification efforts of past Portman bills by making the tax rules more uniform across the different defined contribution vehicles (401(k), 403(b) and 457). It will also reform a variety of regulations that have unnecessarily increased the cost and complexity of retirement plan sponsorship.

Preserving and Protecting Retirement Income

- **Incentives for Lifetime Payments.** More Americans are retiring with lump sum payments from their retirement plans and many face the prospect of having no defined benefit pension. These retirees confront the daunting task of making their savings last throughout their lives. Annuitizing some retirement savings is an effective way to protect against outliving one's assets. The bill will allow individuals to exclude from taxation up to \$2,000 in annual income drawn from qualified (retirement plan or IRA) or nonqualified annuities that last a lifetime. It will also encourage individuals to consider longevity insurance -- a form of annuity that begins payment once you reach life expectancy -- by correcting a glitch in the required distribution rules.
- **Reforming Required Distribution Rules.** The bill will reform the minimum required distribution rules -- which force individuals to begin taking their retirement money at age 70½ -- by indexing this age to future increases in life expectancy. In addition, individuals with less than \$100,000 in their combined IRA and 403(b) accounts will be exempt from these rules altogether, freeing many modest-income seniors from a complex set of requirements aimed at those with significant assets.
- **Reforming Company Stock and Executive Compensation Practices.** The legislation will reform weaknesses in the retirement plan rules brought to light by the Enron bankruptcy by providing employees with new rights to diversify company stock contributed to their 401(k) accounts and requiring new investment education notices. In addition, the bill will impose an excise tax on excessive corporate payments to senior executives in the run up to bankruptcy.
- **Ensuring that Workers Receive Earned Benefits.** The bill will improve and expand upon the existing automatic rollover and missing participant programs to ensure that workers receive the retirement benefits they have earned.