



The White House

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FACT SHEET: Building a 21st Century Retirement System

“And for Americans short of retirement, basic benefits should be just as mobile as everything else is today. Even if he’s going from job to job, he should still be able to save for retirement and take his savings with him.”

– President Obama, State of the Union 2016

In his State of the Union address, the President made clear that more Americans should have the ability to save for retirement at work – and the ability to take their savings with them as they move from job to job. While Social Security remains a rock-solid guaranteed benefit that every American can rely on, Americans are increasingly responsible for their own retirement security. No longer do many workers spend their entire career with one company that will provide them a pension in retirement. Rather, as traditional notions of work and lifetime employment change, too many Americans risk not having the resources to enjoy their retirement after a lifetime of hard work. These changes require us to rethink and rework our safety net to better protect workers.

The President’s proposals – which will be detailed further in his FY2017 Budget – aim to ensure near universal access to workplace retirement savings accounts and put us on a path to a more portable retirement benefits by testing what works. That includes steps to:

- **Expand access to workplace retirement savings opportunities by encouraging more employers to offer plans and making it easier for workers to participate:**
 - o Enabling small businesses to come together and create pooled 401(k) plans, at lower cost and with less burden than going it alone;
 - o Automatically enrolling workers without access to a workplace plan in an IRA;

- o Providing tax credits for small businesses that begin offering retirement plans, or choose to automatically enroll workers in existing plans; and
- o Allowing long-term, part-time workers to participate in their employer's plan.
- **Provide a path forward to more portable retirement benefits by:**
 - o Piloting innovative, more portable approaches to provide retirement and other important employment-based benefits;
 - o Evaluating existing portable benefits models, and examining the feasibility of greater change; and
 - o Helping workers find lost or missing retirement accounts from prior jobs.
- **Build on existing efforts:** The Administration has facilitated state efforts to create their own retirement savings options for their citizens, without running afoul of federal law; launched *myRA*, a simple, safe, no-fee, and portable savings option; issued guidance making it easier for employers to accept rollovers from other 401(k)s; and proposed rules to ensure retirement advisers make recommendations in their customers' best interest.

Expanding Access to Workplace Retirement Accounts

Access to workplace retirement savings plans is key to workers' future economic security. Today, one out of three workers does not have access to a retirement savings plan, including half of workers at firms with fewer than 50 employees and more than three-quarters of part-time workers. In addition, contractors and temporary employees are often unable to participate in employment-based plans. Workers without access to a plan at work rarely save for retirement: fewer than 10 percent of workers without access to a workplace plan contribute to a retirement savings account on their own.

The President's proposals would provide more than 30 million people with access to workplace retirement savings options. The proposals would encourage and enable more employers to offer plans such as a 401(k), while creating alternative savings arrangements so workers can save for retirement at work even if their employer does not offer a plan.

- **Make it easier for employers to create pooled 401(k) plans to lower cost and burden.** Multiple employer plans (MEPs) already allow employers with a "common bond" to form a pooled retirement plan, offering benefits through the same administrative structure but with lower costs and less compliance burden than if each employer offered a separate plan. In his upcoming Budget, the President will for the first time propose to remove the "common bond" requirement, enabling employers to take advantage of "open MEPs" while adding significant new safeguards to ensure workers are protected. As a result, more small businesses should be able to offer cost-effective, pooled plans to their workers, and certain nonprofits and other intermediaries will be able to create plans for contractors and other self-employed individuals who don't have access to a plan at work. As an added benefit, if an employee moves between employers participating in the same open MEP, or is an independent contractor participating in a pooled

plan using the open MEP structure, he can continue contributing to the same plan even if he starts work for a different company.

- **Provide tax cuts for businesses that choose to offer more generous employer plans or switch to auto-enrollment.** The President not only wants to make it simpler for small businesses to offer plans, but also more cost effective for them to do so. That's why the President will again propose in his Budget to triple the existing "startup" credit, so small employers that newly offer a retirement plan would receive a tax credit of \$1,500 per year for up to three years – likely enough to offset administrative expenses. And because auto-enrollment is the most effective way to encourage workers with access to a plan to participate, small employers that already offer a plan and add auto-enrollment would also get a tax credit of \$500 per employer per year for up to three years.
- **Expand retirement savings options for long-term, part-time workers.** Recognizing that part-time workers are much less likely to have access to a retirement plan, in part because employers are allowed to exclude them from participation, the President will again propose in his Budget to require that employees who have worked for an employer at least 500 hours per year for at least three years be eligible to participate in the employer's existing plan. This simple change would provide an additional one million people with access to retirement plans, and come at minimal cost to employers, as they would not be required to contribute.

In addition to encouraging employers to offer traditional retirement plans such as a 401(k), the Administration has taken steps to increase the availability and use of IRAs and help workers save by automatically enrolling them in these accounts.

- **Proposed to automatically enroll workers without access to a workplace plan in an IRA.** The President's Budget will include a proposal – included in his past Budgets – that would require employers with more than 10 employees that do not currently offer a retirement plan to automatically enroll their workers in an IRA. Other individuals not automatically enrolled could participate so long as they fall below the income cutoff, and could continue to make their own contributions even if they change jobs. Employers with 100 or less employees who offer an auto-IRA would receive a tax credit of up to \$3,000.
- **Issued proposed rule and guidance facilitating state efforts to create their own retirement savings programs.** Over the past year, Illinois and Oregon have enacted their own state-level auto-IRAs, while Washington and New Jersey have enacted retirement marketplaces connecting small businesses and their employees to existing investment vehicles. Approximately 20 more states are considering similar measures or an alternative state-based 401(k). To address concerns about preemption by Federal pension law, the Department of Labor has proposed regulations and issued guidance clarifying a legal path forward, and will finalize those regulations later this year.

- **Made *myRA* available to new savers without access to workplace plans regardless of where they work.** This fall, the Department of Treasury fully launched *myRA* (my Retirement Account), a simple, safe, no-fee, and portable savings option that provides the same principal-protected return available to members of Congress. Individuals can contribute to *myRA* through payroll deductions at their employers or directly through their bank accounts, and can continue contributing to *myRA* even if they switch jobs.

Increasing Portability of Retirement Savings

As we work to expand coverage to more hard-working Americans, we also need to apply the best of American innovation to reinventing our benefits programs to ensure that workers in an increasingly mobile economy can carry their benefits with them across an entire career – or for some workers, across multiple employers at the same time. The Affordable Care Act was a huge step forward, relieving the “job lock” that our health insurance system had created for too many. Now when you return to school, or launch a business, you’ll still have healthcare coverage.

But much work remains to ensure retirement benefits are as mobile as today’s workforce. At present, workers who have a workplace retirement savings plan may have to manage a number of retirement accounts left over from prior employers, save in an IRA to which their employer will not contribute, or complete an often burdensome process to move their 401(k) balances from job to job, assuming their new job allows it.

Good ideas in this area and on portable benefits more broadly have been raised on both sides of the aisle, but new models enabling workers to take their retirement benefits and other important employment-based benefits from job to job are still in their infancy. Today’s proposals are designed to lay a foundation for a future expansion of benefits by developing models that work and, once proven, can be taken to scale. That’s why the President proposes to:

- **Pilot new, more portable approaches to providing retirement and other important benefits typically offered by employers.** The President’s Budget will propose demonstration funding for nonprofits and States to design, implement, and evaluate new, innovative approaches to provide more portable retirement and other employer-provided benefit coverage. The goal is to develop and test models that are portable across employers and can accommodate intermittent contributions or contributions from multiple employers for an individual worker. In addition, the Department of Labor will evaluate existing portable benefits models, and examine the feasibility of greater change.

Employees should at least be able to consolidate savings from a prior 401(k) into their new 401(k) rather than amassing a stack of accounts throughout their lifetime, but the process of rolling over can be burdensome, and workers often receive bad advice about what to do with their savings. That’s why the Administration has taken the following steps under its own authority to promote rollovers between retirement plans and enable people to more easily keep track of their retirement savings.

- **Issued Treasury/IRS guidance making it easier for employers sponsoring a plan to accept rollovers from other employers' 401(k)s** or other plans by addressing concerns that incoming rollovers might jeopardize the qualified status of the receiving plan.
- **Proposed new rules to ensure that retirement savers receive advice in their best interest, especially when changing jobs.** Employees leaving a job are often advised to take the money out of their 401(k) and put it in an IRA managed by the adviser, rather than rolling the funds over to their new employer's 401(k). While this may be the right step for some savers, such advice is sometimes motivated by the adviser's best interest, rather than the clients. The Department of Labor's proposed conflict of interest rule – which will be finalized later this year – would minimize such conflicts of interest by requiring retirement advisers to provide advice in their clients' best interest.
- **Assisted individuals keep track of retirement accounts terminated by their employer.** The Pension Benefit Guaranty Corporation's Missing Participants Program connects participants who could not be located when their defined benefit plan terminated with their unclaimed pension benefits. PBGC will be issuing a proposal to expand the program to help missing participants in terminating defined contribution plans.
- **Enabled savers to access their retirement benefits even if their company goes bankrupt.** By the end of the year, the Department of Labor will finalize new rules enabling bankruptcy trustees to more efficiently distribute assets from bankrupt companies' retirement plans, so their employees can access their savings sooner.

The federal government's own retirement plan – the Thrift Savings Plan (TSP) – is also making it easier for federal employees to roll their prior 401(k) savings into their TSP account. This June, the TSP will issue a request for proposals to, among other things, eventually facilitate rollovers to the TSP by making the service provider, not the participant, responsible for shepherding rollovers.