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## **STATEMENT ON PRESIDENT OBAMA'S AUTO-IRA PROPOSAL**

WASHINGTON – The Pension Rights Center applauds the Obama administration for recognizing retirement insecurity as a major national issue – both in the President's State of the Union address last night and in the **recommendations** released by the Middle Class Task Force on Monday. Giving workers better information about the fees they pay for their 401(k) accounts, ensuring that investment advice is given without conflicts of interest, making it easier for individuals to save for retirement, and expanding government matches for savings by low- and moderate-wage earners are important, if modest, proposals.

However, these measures should be only a starting point for reform. In particular, the centerpiece of the President's retirement income initiatives – establishing automatic IRAs in the workplace – requires careful thought and debate. As it currently stands, the proposal will only marginally increase retirement savings **for those who can afford to contribute**. It will not do enough to address the **retirement income crisis** that is engulfing the country.

The auto-IRA proposal requires that employers with more than 10 workers who now do not sponsor a retirement plan enroll their employees in a direct-deposit IRA, unless the worker opts out.

Some of these contributions would be matched by a tax credit provided by the government.

While the Pension Rights Center supports efforts to encourage people to save for retirement, there are downsides to the auto-IRA approach that have not been discussed and that should be addressed. In fact, in some instances, the auto-IRA can end up hurting some of the very workers it is meant to help.

- 1. Penalty taxes disproportionately hurt lower-income workers:** Many individuals may at first contribute to an IRA, only to find later that they need to pull that money out before retirement for an emergency. Not only will they have to pay income taxes on the money withdrawn, but they will also be hit with a 10 percent penalty tax. While proponents of the auto-IRA claim that low- and middle-income workers will benefit from the proposal the most, these are the individuals most likely to need the money before retirement.

- 2. The proposal could remove the impetus for employers to do better:** If employers are required to set up auto-IRAS, they may decide not to set up a better plan that includes employer contributions. At a time when employees are facing the most uncertain economic conditions since the Great Depression, we need shared responsibility. All the risks and responsibilities of retirement savings should not be put onto individuals.
- 3. Fees could eat away the balance:** The fees that financial institutions charge could be hefty, eating away at individuals' account balances. The alarmingly high level of fees charged for 401(k)s has been the object of much attention. Similar concerns exist for the IRA market. In January 2010, H&R Block paid \$20.2 million to settle a nationwide lawsuit over the company's marketing of IRAs with hidden fees that caused hundreds of thousands of mostly lower-income clients to lose money.
- 4. There's nobody minding the store:** If the number of IRA accounts increases overnight, who will provide the necessary oversight? IRAs are not covered by the federal pension laws that govern 401(k) plans and traditional pensions. This means that the Department of

Labor does not oversee the management of IRAs. The responsibility falls to the Securities and Exchange Commission, which has larger concerns than overseeing money invested in small accounts. No one will be watching if some employers do not make the proper contributions to employees' accounts (as has happened in the 401(k) world) or if other fraud takes place.

**5. The auto-IRA does not cover everyone.**

The Obama administration proposal provides an exception for employers that have 10 or fewer workers, which means that at least 18 million people would not be covered by the plan. This represents about 15 percent – and the fastest growing sector – of the private workforce.

**6. The auto-IRA is not the answer to the nation's retirement income problems.** If the auto-IRA passes Congress, it is only a small step forward, and the Pension Rights Center is concerned that it may forestall efforts for more comprehensive reform. The auto-IRA cannot be the only thing we do.

While the auto-IRA is likely to increase the number of people who save for retirement, it will do nothing to ensure that people have enough money

in retirement or that their money is secure. Increasing the number of people with plans is not the same as ensuring that all workers have adequate retirement savings. That's why the Pension Rights Center and other groups launched **Retirement USA** -- to work for a comprehensive retirement system for the future. Retirement USA's main **principles** are universal coverage, and secure and adequate income. Making it easier for people to save for retirement is a worthwhile step, but the auto-IRA is not a long-term solution.