Retirement Savings Proposals—Summary of Key Provisions

February 2014

Three different proposals have recently emerged from Washington D.C., each seeking to improve access to retirement plan savings vehicles. Each of these proposals is primarily targeted at employees of small employers who do not currently sponsor defined benefit (DB) or defined contribution (DC) retirement plans. This Aon Hewitt bulletin provides a high-level summary of the following three proposals:

- myRA (Announced by President Obama in January 28 State of the Union Address);
- The Retirement Security Act of 2014 (RSA-2014) (Introduced to Senate by Sens. Collins (R-ME) and Nelson (D-FL) on January 29th); and
- The Universal, Secure, and Adaptable Retirement Funds (USARF) Act (Introduced to Senate by Sen. Harkin (D-IA) on January 30th).

A comparison chart is also included in this bulletin.

myRA

The President has directed the Treasury to establish a new type of "Starter Savings Account," a Roth IRA account into which employers can make payroll deduction contributions on behalf of their employees. Assuming no delays, a myRA "pilot program" will be up and running by the start of 2015. No congressional approval is required. However, the $15,000 lifetime limit on contributions will limit the appeal of the myRA option for most large employers, who already sponsor significantly larger retirement plans with limits far greater than the myRA will permit.

RSA-2014

RSA-2014 would make it easier for groups of unrelated employers to participate in multiple employer pension plans (MEPs). First, RSA-2014 would create a new class of DC MEPs in which the participating employers are not required to share a "common interest." Only employers with 500 or less employees would be eligible to participate in this new class of MEP. Second, RSA-2014 would direct the Treasury to issue regulations covering all MEPs ensuring that the failure of one participating employer to meet the qualification requirements will not disqualify the entire MEP.

This bill must first pass the House and Senate and receive the President's signature, but the bipartisan sponsorship, as well as the enthusiastic endorsement by the American Benefits Council suggests that this bill stands at least a slim chance of passage in some form.

USARF Act

The USARF Act would establish a new class of Department of Labor (DOL)-approved, "pooled" retirement plans, run by independent Boards of Trustees, with benefits paid out as lifetime annuities with adjustments permitted for investment performance. Employers must offer these plans to their participants unless they already sponsor retirement plans that meet certain minimum requirements. Participants would be automatically enrolled in these plans, but may choose to opt out of participation, or could select a different plan than the employer has chosen.

Retirement Proposal Comparison: myRA, RSA-2014, and the USARF Act

	myRA	RSA-2014	USARF Act
Governing document	Presidential Memorandum to Secretary of Treasury dated January 28, 2014.	RSA-2014, introduced on January 29, 2014.	USARF Act, introduced on January 30, 2014.
Sponsor(s)	President Obama has directed the Treasury to establish pilot program by end of 2014. Congressional approval not required.	Sen. Bill Nelson (D-FL) and Susan Collins (R-ME).	Sen. Tom Harkin (D-IA).
Stated purpose	"[T]oo few Americans have enough savings to maintain their standard of living in retirement…Workplace-based retirement savings…can increase retirement savings dramatically... The positive effect of automatic contributions is especially pronounced among lower-income households…"	"The Retirement Security Act of 2014 would make it easier for smaller businesses to provide access to retirement plans for their workers…The legislation focuses on reducing the cost and complexity of retirement plans, especially for small businesses, and on encouraging individuals to save more for retirement."	"USA Retirement Funds address the retirement crisis by ensuring that 75 million working people without a retirement plan—including 61 million without access to a workplace plan and 14.5 million self-employed workers—would, for the first time, have the opportunity to earn a safe and secure pension benefit." USARFs would also "spread the risks inherent in running a pension across large groups of employers and retirees."

	myRA	RSA-2014	USARF Act
Key implications	Eventually available to all employers. myRA contributions will be subject to existing Roth IRA limits of $5,500/$6,500 per year for under/over age 50.	Cap of 500 employees. May be of interest for smaller employers.	May cause some DC sponsors to introduce auto-enrollment and lifetime income options or otherwise modify their plans to avoid being required to participate in USA funds. Could cause some DB sponsors to expand coverage for similar reason. May be attractive for smaller employers who wish to offload DC plan administrative and fiduciary obligations.
Vehicle	Single fund sponsored by the U.S. Treasury, with investment manager(s) and administrator(s) chosen through competitive bid, currently underway.	New class of multiple employer DC plans (MEPs).	Privately sponsored, independent funds.
Sponsors	U.S. Treasury.	May be sponsored by groups of employers with no "common interest," unlike current MEPs. Plans may be established by an industry or trade group, or a Professional Employer Association such as an independent financial institution.	May be established by non-profits, employer associations, unions or employee organizations, financial institutions, or other types of organizations, subject to DOL approval.

	myRA	RSA-2014	USARF Act
Employer participation	Employers may choose to participate in myRA. Contributions to myRA will come via payroll deductions. Employees must opt-in to plan.	Employers with 500 or fewer employees may join these MEPs. Participation is voluntary. Directs the Treasury to issue regulations so that participating employers who fail to meet qualification rules will not endanger the qualification status of the entire MEP.	Required: Employers with 10 or more employees that (i) do not sponsor a qualified retirement plan; or (ii) sponsor a frozen defined benefit pension plan (or do not sponsor a DB plan) and offer a DC pension plan without auto-enrollment ***and*** auto-enrollment safe harbor matching contributions ***and*** lifetime income options <u>must</u> automatically enroll employees in a USARF. Optional: Employers offering a DB pension or DC with auto-enrollment and a lifetime income option may offer a USARF as well.
Employee participation	Not specified if participants must opt-in, or if instead may opt-out. Participation limited to households earning up to $191k per year. Unclear if self-employed will be eligible to participate.	Same as under current multiple employer rules. Employee contributions are voluntary.	Employees can opt-out or change their contribution rate from default 6% of pay. Employees may also participate in a fund not chosen by their employer. Self-employed may participate in a fund of their choosing on a voluntary basis.

	myRA	RSA-2014	USARF Act
Fiduciary obligations	No employer fiduciary responsibility. Principal is protected by U.S. government (like a savings bond).	Employer is Primary Fiduciary. Participating Employers retain fiduciary responsibility to select a named fiduciary and for investment and management of plan assets attributed to their employees (unless otherwise delegated to another fiduciary). Will likely follow current MEP structures where participating employers delegate authority to "Sponsoring MEP"—the primary employer sponsor.	Primary fiduciary would be Board of Trustees. The Board would be appointed by the sponsor of the Fund. A majority of the members must be independent from the sponsor. Board must adequately represent the interests of employers, employees, and retirees. No employer fiduciary responsibility. Employer is responsible for meeting enrollment requirements and transmitting contributions.
Contribution source & limits	Employee deferrals up to Roth IRA limits ($5,500 per year, $6,500 if over 50).	Same as under current multiple employer rules. Employer and employee contributions subject to same nondiscrimination rules that apply to single employer plans, tested on an employer-by-employer basis.	Employees: up to $10k per year. Employers: up to $5k per year, "made uniformly."
Tax treatment	Similar to Roth IRA rules: Contributions are entirely after-tax. Distributions are not taxed (Administration has indicated savings would be accessible to participants without penalty). Earnings will likely be accrued on a tax free basis (following the Roth IRA structure).	Same as under current multiple employer rules.	Employee and employer contributions are pre-tax. Lower income individuals will be eligible for refundable savers credit (already available under current law, but not for those filing 1040EZ).

	myRA	RSA-2014	USARF Act
Investment options	New Treasury security with principal protected from loss, earning a variable interest rate equal to the Federal Thrift Savings Plan (TSP) rate.	Investment options selected by plan sponsor, from which participants can choose.	Professional asset management: no participant direction. Assets would be pooled and professionally managed by the Trustees.
Rollovers	Balance must be rolled into a private sector Roth IRA once reaches $15,000.	Existing MEP rules will apply.	Rollovers from 401(k) or IRA permitted. Small amounts may be rolled over into another retirement plan.
Plan administration	Investment and administration to be handled by a private-sector money management firm selected by the Treasury	Investment and administration to be handled by MEP sponsor.	Delegated by Board of Trustees.
Investment management	Investment and administration to be handled by a private-sector money management firm selected by the Treasury	Investment and administration to be handled by MEP sponsor.	Delegated by Board of Trustees.
Governance	Run by the Treasury.	Primary MEP sponsor will likely assume fiduciary and compliance obligations upon delegation from participating employers.	Fund must meet compliance requirements (Directive to regulatory agencies to develop and ease compliance burden). Participants may petition Trustees to remove Fund service providers, comment on management and administration of funds, and approve or disapprove of trustee compensation.

	myRA	RSA-2014	USARF Act
Distribution options	May take balance or roll over to private sector Roth at any time.	Existing MEP rules will apply.	Payout over lifetime or joint lifetime, with survivor benefits and spousal protections, like a traditional pension. Fund may self-annuitize or purchase commercial annuities. Participant elects benefit commencement date (may not be earlier than 60 or later than 72). If over 60 with sufficient retirement income or substantial hardship, may take one-time lump sum withdrawal of greater of $10k or 50% of benefit.
Risk-sharing	Presumably no risk to participants, as guarantee is backed by U.S. government.	Employees bear all investment, longevity, and other risks.	Trustees may adjust benefits to reflect market performance, upward or downward, within limits. Downward adjustments no greater than 5% per year without approval.

	myRA	RSA-2014	USARF Act
Other provisions	White House myRA Fact Sheet also mentions separate White House proposals to limit retirement plan tax breaks for high-income households to 28% of income, and to limit contributions to tax-preferred savings accounts once balances reach about $3.2M.	Additional 401(k) safe harbor autoenrollment structure: Automatic employee deferral of: ▪ 6% in year 1; ▪ 8% in year 2; ▪ 10% in years 3; and later. Matching contributions of: ▪ 100% up to 1% of pay; ▪ 50% between 1% and 6%; and ▪ 25% between 6% and 10%. Lower income individuals will be eligible for refundable savers credit (already available under current law, but RSA will permit this credit for those filing 1040EZ). Employers with fewer than 100 employees may qualify for tax credit on portion of matching contributions. Simplification of participant notice and auto-escalation rules for employers with multiple payroll and administration systems.	Harkin bill contains provisions covering many other DB and DC issues including hybrid pension plan provisions, minimum funding rules, fiduciary responsibilities, and lifetime income options. Harkin bill also includes language similar to the Collins/Nelson bill, permitting establishment of a new class of multiple employer pension plans without requirement that participating employers share a “common interest.”

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