

RETIREMENT SECURITY FOR AMERICAN FAMILIES

“If you work hard your whole life, you ought to have every opportunity to retire with dignity and financial security. And as a nation we ought to do all we can to ensure that folks have sensible, affordable options to save for retirement.”

-- President Barack Obama

As many as 78 million working Americans—about half the workforce—don't have a retirement savings plan at work. Fewer than 10 percent of those without plans at work contribute to a plan of their own. Our nation needs to do more to help families save and give them better choices to reach a secure retirement.

Today, President Barack Obama and Secretary Tim Geithner announced new steps to make it easier for American families to save for retirement. These new initiatives will complement the president's major legislative proposals to boost participation in IRAs and match retirement savings. The Department of the Treasury will:

- Expand opportunities for automatic enrollment in 401(k) and other retirement savings plans,
- Make it easier for more than 100 million families to save a portion or all of their tax refunds,
- Enable workers to convert their unused vacation or other similar leave into additional retirement savings, and
- Help workers and their employers better understand the available options for tax-favored retirement saving through clear, easy-to-understand language.

Together, these steps will expand the range of choices for workers who want to save and will make saving easier for millions of Americans.

NEW INITIATIVES TO HELP FAMILIES SAVE

(1) Expand Automatic Enrollment in 401(k) and Other Retirement Savings Plans: Under automatic 401(k) plans, employers directly deposit a small percentage of each paycheck into workers' retirement accounts. Employees maintain full choice over whether and how much they want to save. Each employee can choose to opt out of the plan or save a different amount, and employers can easily match employee contributions. Automatic enrollment boosts participation in 401(k) retirement plans from about 70 percent to more than 90 percent, and it is particularly effective in increasing the participation of low-income and minority workers. But while nearly half of larger companies with 401(k) plans have adopted automatic enrollment, fewer medium-sized or small businesses have done so. The Administration will

- **Streamline the process for 401(k) plans to adopt automatic enrollment.** Plan sponsors typically seek Internal Revenue Service approval of plan amendments to ensure legal compliance. By issuing pre-approved automatic enrollment language, the IRS will allow plan sponsors to amend their plans to adopt automatic enrollment more quickly, without the need for case-by-case approval by the IRS.

- **Make it easier to increase saving over time.** A promising approach to boosting retirement savings is to gradually increase automatic worker contributions over time. For example, workers could dedicate a portion of their pay raises to retirement savings or be put on a path to save a higher percentage of their pay every year, while remaining free to stop the increases or opt out entirely at any time. Treasury and the IRS are releasing a ruling explaining how 401(k) plans can use this automatic increase feature.
- **Allow automatic enrollment in SIMPLE-IRAs.** The SIMPLE-IRA combines the basic elements of 401(k) plans and IRAs, creating an easily administrable retirement plan that small businesses can offer to their employees. An estimated 3 to 4 million SIMPLE-IRA accounts exist, but workers are not automatically enrolled. Treasury and IRS are now issuing guidance to help interested employers automatically enroll employees in SIMPLE-IRA plans so long as employees are free to opt out.

(2) Create Easier Ways to Save Tax Refunds: More than 100 million families receive federal income tax refunds each year. Averaging more than \$2,000, tax refunds present a unique opportunity for families to save. Taxpayers can already instruct the IRS to directly deposit their refunds and dedicate a portion to an IRA or other savings vehicle. Today, the Treasury and IRS announced that taxpayers will have another savings option beginning in early 2010 -- the ability to use their refunds to purchase U.S. savings bonds simply by checking a box on their tax return, without having to open an account at Treasury or take any other action, and even if the taxpayer doesn't have a bank account. The savings bonds would be mailed to the taxpayer. Taxpayers will be able to purchase bonds in their own names beginning in 2010 and to add co-owners such as children or grandchildren beginning in 2011.

(3) Allow Unused Leave to Be Converted to 401(k) Savings: Every year, millions of workers leave their jobs and receive substantial payments, often in cash, for unused vacation or other similar leave. For many employees, this money could easily be saved. Treasury and the IRS are issuing two rulings today describing how employers can allow their employees to contribute those amounts to their 401(k) plan. As an alternative, the rulings also give employers the option of making their own contribution of these amounts to their employees' 401(k) or other plan.

(4) Explain Saving Options: Employees changing jobs and receiving payments from a retirement plan face a number of choices, including a tax-free "rollover" of their benefits to another retirement account. These choices are not always well understood. Today, Treasury and the IRS are issuing a plain-English road map for rollovers to help workers keep their savings in tax-favored retirement plans or IRAs until they are ready to retire, rather than withdrawing cash earlier, subject to tax penalties. The road map is an updated model notice for plans to give departing employees. It clearly explains how to roll over plan balances, the key decisions, and the tax consequences. In addition, the IRS has created new user-friendly web site materials to help employers select an appropriate retirement plan and to help employees better understand the benefits of saving for retirement.

To read the Treasury and IRS rulings and materials, please visit <http://www.irs.gov/retirement>.

BUILDING ON EXISTING OBAMA RETIREMENT PROPOSALS

The Obama Administration is committed to giving tens of millions more Americans more and better choices to save for retirement through their jobs and receive tax benefits for doing so. The president will continue to work to expand and strengthen employment-based retirement security. Today's steps complement two important initiatives included in President Obama's budget:

- **Create Automatic IRAs:** IRAs are intended to give a tax-favored saving opportunity to the millions of workers -- about half the American work force -- who have no workplace retirement plan. Yet fewer than 1 out of 10 workers who are eligible to make tax-favored contributions to an IRA actually contribute to an IRA, while 9 out of 10 workers automatically enrolled in a 401(k) plan continue to make contributions. When enacted by Congress, the Administration's proposal will automatically enroll workers without workplace retirement plans in IRAs through payroll deposit contributions at the workplace. The contributions will be voluntary -- employees will be free to opt out -- and matched by the Savers Tax Credit for eligible families.
- **Reform and Expand the Savers Credit to Match Retirement Savings:** The expanded Savers Tax Credit will match the retirement savings of millions of families. It will match half of families' savings up to \$500 per individual each year and deposit the tax credits directly into the individual's 401(k) plan account or IRA. The credit will be available to low- and middle-income working families, including those who earn too little to owe income taxes.