Check-off IRA (CIRA) and Social Security Reform

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Retirement Plans at Work

- 94 million full-time workers in private sector (2005)
- 54.5 million full-time workers for employers offering a retirement plan
- 39.5 million full-time workers for employers not offering a retirement plan

*Source: Dallas Salisbury at Employee Benefits Research Institute, January 8, 2007.

Connectivity Mandate

- Applies to employers, with more than 10 full-time workers, which do not offer a retirement plan
- Required to offer all full-time workers chance to make pre-tax contributions to CIRA through payroll deductions
- Presumptive deduction of 3% of salary per year, up to $5,000 per year, with opt out by workers
- Presumptive investment in balanced, asset allocation or lifestyle funds, with opt out by workers

Role of Financial Institution

- Chooses investment array, including default investment (with opt out by workers)
- Performs all compliance and reporting functions; employer is not plan fiduciary
- Participation by financial institutions depends on:
  - Prohibition on loans from plan
  - Restrictions on customer service
  - Selection of affiliated fund
  - Fees allowed to be charged

Small Employers (11 to 99 workers)

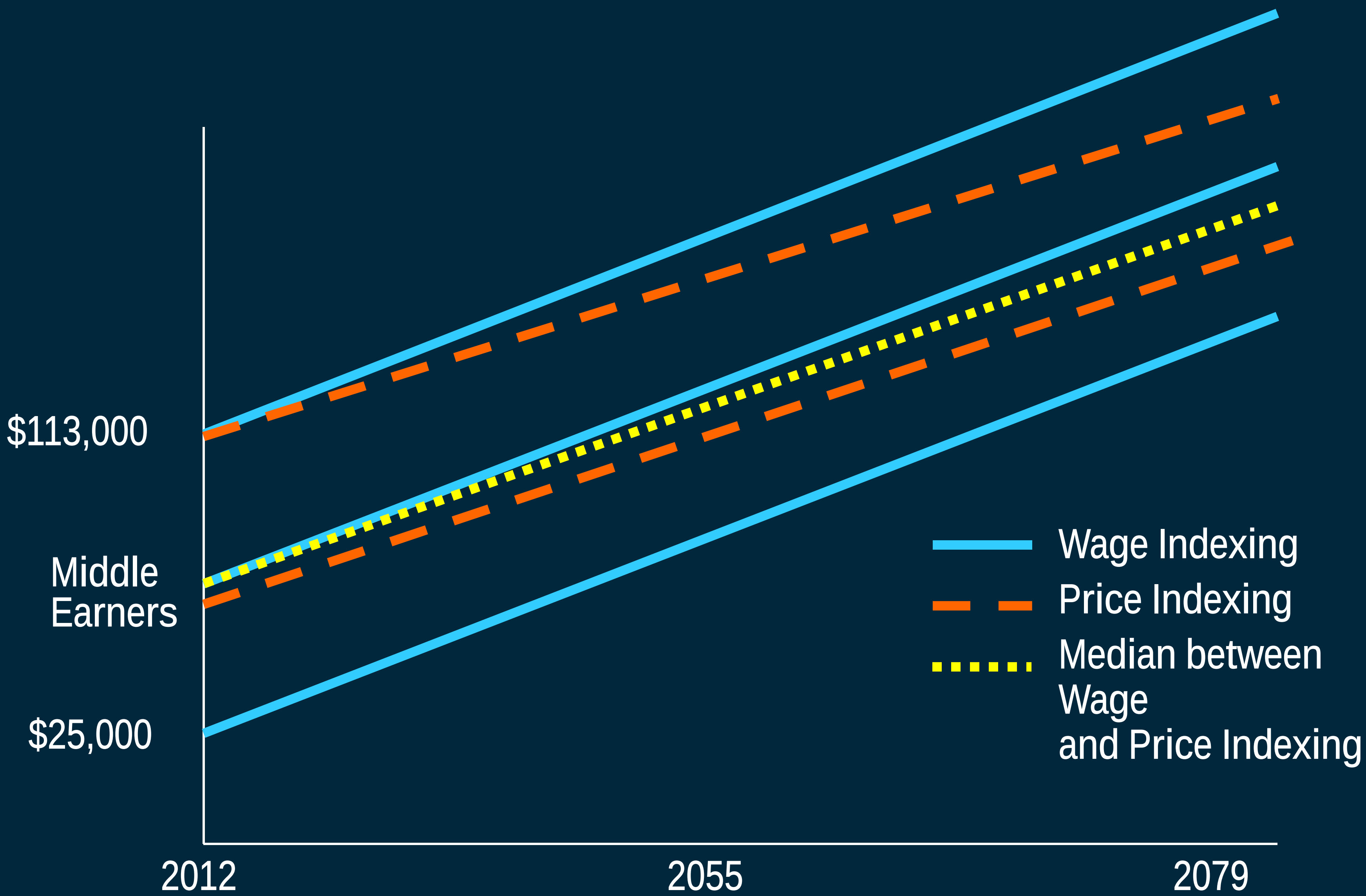
- Most small employers do not have automatic payroll systems
- Should be eligible for start-up tax credits at lower level than current tax credit for starting retirement plans ($500 per year for 3 years)
- Query: Should they piggyback CIRA contributions on SS taxes, with investments through Federal Thrift Plan?

Large Employers (100 or more workers)

- Sponsorship of retirement plans by employers with more than 100 workers is 66%
- Connectivity should be easy because most large employers have automated payroll
- Query: To avoid cannibalization, should large employers be required to match worker contributions to CIRA up to certain limits?
- Or would cannibalization be avoided by lower annual contribution limits for CIRA ($5,000) than SIMPLE ($10,000) or 401k ($15,000)?

Progressive Indexing for Social Security

Slower benefit growth for middle and high earners



Responses to Criticisms

- Flat benefit in 21st Century:
  stop PIN in 2082 when 10+% differential

- Prices grow faster than wages:
  index initial SS benefits to wage growth for all workers

- Alternatively, add and/or revise bend points:
  more stability, but lower savings than PIN

- Do not hold disabled harmless, and
  improve PIN schedule for median worker:
  generate more savings through longevity indexing

Longevity Indexing

- Start at 2027 with NRA of 67
- Generates savings of 27% of current 75-year deficit
- Roughly half of 27% goes to hold disabled harmless
- Other half goes to improve PIN schedule for median worker

Personal Accounts

- PIN does <u>not</u> depend on carve-out accounts, which are <u>not</u> part of this proposal
- Promote add-on accounts by eliminating income cap on Roth IRA eligibility
- Promote add-on accounts by making law-income tax credit for IRA contributions partially refundable

Raising Payroll Tax Base

- Query: Does there have to be an increase in maximum taxable wage base as part of Social Security reform?
- Increasing maximum taxable wages from $113,000 to $150,000 in 2012 would cut 75-year deficit by 20%-22%
- Imposing 2% surtax on all earnings above current maximum wage base in 2012 would cut 75-year deficit by 18%

Conclusions

- CIRA is designed to increase employer-based retirement plans
- CIRA is attractive legislation, with or without SS reform
- Politics of SS reform may require expansion of Roth IRA
- Expansion of Roth IRA should not happen without SS reform