

Senator Harkin's Plan To Increase Retirement Savings

Welcome to *legislate*, the recess edition. During the five-week summer recess, *legislate* will focus on policy issues that have not made it to the legislative process, other reports that could influence legislation, and possible legislative trends in Congress. When Congress returns in September, the weekly roundup of events on Capitol Hill that affect employee benefits and human resources will resume.

Summing It Up

Last week, Senator Tom Harkin (D-IA), Chairman Senate Health, Education, Labor and Pensions (HELP) Committee, [reached out to](#) the plan sponsor community regarding his proposal to improve retirement security. His proposal would require employers who do not otherwise sponsor a retirement plan to automatically withhold wages and contribute the withholding and an employer contribution to professionally managed funds. There also would be improvements to Social Security. Senator Harkin said that this proposal is a starting place for an evolving discussion, and he wants to work with the plan sponsor community to find practical solutions to improve retirement security for everyone. He asked plan sponsors to contact him with any ideas, suggestions, or other proposals at Retirement_Security@help.senate.gov.

Harkin's Call to Action and Proposal

On July 27, 2012, Senator Harkin released a white paper titled [The Retirement Crisis and a Plan to Solve It](#). The paper contains a proposal to increase coverage by requiring automatic payroll contributions (with an employer contribution) to professionally managed funds. The paper also discusses previously introduced legislation that would improve Social Security. In the paper, Senator Harkin notes that the traditional three-legged retirement stool (savings, pensions, and Social Security) that was never sturdy "has become increasingly wobbly as pensions have disappeared and the middle class is finding it harder and harder to save." He also asserts that a robust private pension system is essential to retirement security.

Over the past two years, the HELP Committee held a series of hearings on retirement security. According to the paper, the following four policy principles emerged from the hearings:

1. The retirement system should be universal and automatic.
2. The retirement system should give people certainty.
3. Retirement is a shared responsibility.
4. Retirement assets should be pooled and professionally managed.

With these principles in mind, Senator Harkin's proposal would make changes to both the employer-provided retirement system and Social Security. On the employer side, the proposal creates the "Universal, Security and Adaptable (USA) Retirement Funds." The Social Security reforms would increase benefits and strengthen the trust fund's finances.

USA Retirement Funds

Employers that do not offer a retirement plan with automatic enrollment and a minimum level of employer contributions would be required to automatically withhold a portion of each employee's pay and send that, along with a "modest" employer contribution, to a USA Retirement Fund. The proposal does not specify the amount of either contribution. Both contributions presumably would be on a tax-preferred basis. Low-income workers would be eligible for a refundable retirement savings credit directly contributed to a USA Retirement Fund. An employer could either elect a particular fund or send the contributions to a default fund determined on the basis of region or industry, or through collective bargaining. The employer would have no other responsibilities. An employer that offers a defined benefit or defined contribution plan could voluntarily contribute to a USA Retirement Fund.

A USA Retirement Fund would be a privately run, licensed, and regulated retirement plan overseen by a board of trustees with employee, retiree, and employer representatives. The trustees would be plan fiduciaries required to act prudently and in the best interest of plan participants and beneficiaries. All assets would be pooled and professionally managed. USA Retirement Funds would be subject to various transparency requirements governing disclosure of investment performance, funding levels, and the projected level of retirement benefits based on contribution levels.

Benefits would be paid as a lifetime annuity with survivor benefits. The proposal states that a person's monthly benefit would be based on the total contributions made by, or on behalf of, the participant and investment performance over time. The proposal also allows participants to move money from fund to fund. However, the proposal does not mandate either that benefits all be payable from one aggregated fund or the age at which money can be paid, both of which could complicate benefit payment.

Social Security Improvements

In the paper, Senator Harkin acknowledges that Social Security is an efficient way of providing retirement security to many Americans. However, he notes that it could be improved. The paper discusses three changes to Social Security, which first appeared in Harkin's [Rebuild America Act](#) (the Act) (S. 2252), introduced in March 2012.

The first change would increase Social Security benefits. The current Social Security benefit formula is a progressive formula that replaces more income at lower income levels. Specifically, the replacement factor for a person's first \$767 of Average Indexed Monthly Earnings (AIME) is 90%. The replacement factor for AIME between \$767 and \$4,624 is 32%, and the replacement factor for AIME between \$4,624 and \$8,532 is 15%. The Act would increase the amount of earnings at the 90% replacement rate by 15% over 10 years, about a \$60 per month increase.

The second change would be to modify Social Security's cost-of-living adjustment (COLA). Social Security's current COLA is the Consumer Price Index for All Urban Wage Earners (CPI-W). According to the Department of Labor (the agency that compiles all consumer price indices), consumer price indices, including the CPI-W, are based on "food, clothing, shelter, fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and

services that people buy for day-to-day living.” In the paper, Senator Harkin explains that these goods and services do not reflect what seniors purchase, such as more medical care. Accordingly, the Act would change the Social Security COLA to a new index. This new index would be the Consumer Price Index for the Elderly (CPI-E), which would be specifically tailored to track seniors’ costs.

The third change would eliminate the cap on Social Security wages. Under current law, only the first \$110,100 of wages is subject to the Social Security payroll tax (for both employer and employee contributions). The Act would eliminate this cap over a ten-year period. To make sure that those who are contributing more receive a benefit for the additional money that they put in, the Act would create a new replacement factor of 5% for income over the current wage cap.

Going Forward

The Harkin retirement proposal has its share of supporters and detractors. Many supporters say that the proposal is a good first step that increases coverage by building on the existing system. Some detractors say that it does not go far enough to reform the current employer-sponsored system, while others contend that it would undermine current arrangements by diverting funds to the new accounts. In any event, the hope is that it brings the retirement insecurity issue to life and gets people to search for solutions to what could become the next economic crisis. The current proposal is short on details, so there is much to be done to develop this into a viable piece of legislation. However, Senator Harkin is hopeful that work will start on this next year.

Did you know?

The Congressional baseball game pits Republicans and Democrats against each other on the field rather than in the chambers. The first game, played in 1909, was organized by Representative John Tenner of Pennsylvania, a former professional baseball player. Over the years the game was occasionally interrupted by world events, reduced to a biennial schedule for a time, and discontinued because it had become too physical. Currently, the game is held every year, and the proceeds go to two local DC charities. To learn more about the game or to buy tickets for next year, click [here](#).

Next week: What is a “lame-duck” session?

This legislate is intended to provide general information. It does not offer legal advice or purport to treat all the issues surrounding any one topic