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Retirement Savings Reform

Don't expect any real discussion until after the election

As we inch closer to November, it is becoming clear that the upcoming elections need to be monitored by all within the retirement services industry. Over the last few months, both parties have discussed reforming the Tax Code in an effort to broaden the revenue base, adjust income tax rates—higher or lower—and eliminate various deductions and tax loopholes. Tax reform is under consideration because of public pressure to deal with the federal budget deficit. Several independent commissions have set the stage for major tax reform by suggesting limiting or eliminating many tax expenditures, such as that for retirement savings, which has been identified as one of the top three most expensive.

These tax and budgetary issues also come along at a time when the U.S. lacks a cogent and structured retirement policy. Since the general shift away from defined benefit (DB) plans to defined contribution (DC) plans, Congress has made numerous attempts to secure greater retirement security for seniors. Accomplishing this goal, however, has been a challenge. Congress has lacked the foresight to establish a retirement policy aimed at providing an efficient, comprehensible program for the retirement security of the American work force. In an aim to spur campaign conversation this fall, one of the latest retirement proposals was made by Sen. Tom Harkin, who offered the creation of a new type of pension plan to address "America's retirement crisis." The plan includes a requirement for employers not already offering retirement savings plans to automatically enroll employees in a new set of "Universal, Secure and Adaptable" (USA) Retirement Funds. These USA Funds would be privately and professionally managed under the oversight of a board of trustees, which would include representatives of employees, employers and retirees.

Despite the uncertainty regarding whether retirement savings will be on the table when dealing with tax reform, and the absence of a coherent national retirement savings policy, neither presidential candidate has thus far offered specific proposals on how he would manage the current problems facing the private retirement system. Likewise, the candidates have provided little information about how they plan on handling the national Social Security crisis.

Like some past candidates, Mitt Romney has advocated raising the retirement age slowly to account for increases in longevity and lowering the growth rate on benefits for those with higher incomes.

Alternatively, President Obama offered six guiding principles for Social Security reform: 1) any reform should strengthen Social Security for future generations and restore long-term solvency; 2) the administration will oppose any measures that privatize or weaken the Social Security system; 3) while all measures to strengthen solvency should be on the table, the administration will not accept an approach that slashes benefits for future generations; 4) no current beneficiaries should see their basic benefits reduced; 5) reform should strengthen retirement security for the most vulnerable, including low-income seniors; and 6) reform should maintain robust disability and survivors' benefits. While this does not provide much in the way of a concrete plan for how the president intends to accomplish these objectives, it is clear that he will attempt to obtain additional revenues to help pay for Social Security without cutting current benefits.

The obstacles impeding retirement security for Americans are formidable. Pensions cost money and constitute one of the largest revenue losers in the federal budget. Simply put, the presidential candidates, as well as those embroiled in congressional and senatorial races, do not want to make tough choices that could be interpreted as supporting higher taxes or eliminating incentives for retirement savings, and so the lack of transparency is not surprising. What is clear, however, is that these very same issues concerning the U.S. retirement programs will need to be confronted once the elections are over. Critical budget and tax reform issues will be addressed. And—if for no other reason than the negative revenue impact of pensions on the deficit—pension policies will need to be reassessed by the same policymakers who currently avoid addressing these critical issues in an important election year.

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