Buttigieg's plan to close the 401(k) coverage gap

By Editorial Staff *Thu, Nov 28, 2019*

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Democratic presidential candidate Pete Buttigieg has released an economic white **paper** with ideas for improving the retirement security of Americans. The reforms include measures to refinance Social Security, shrink the retirement plan "coverage gap" at small firms, and remove obstacles to the provision of home-based long-term care.

The 37-year-old mayor of South Bend, Indiana, led a public opinion poll last week in Iowa, site of the first (and largely symbolic) Democratic primary on February 3, 2020. Buttigieg surged ahead of Senators Elizabeth Warren (D-MA) and Bernie Sanders (D-VT) and former vice-president Joe Biden.

The main dish on his menu of reforms is an opt-in "Public Option 401(k)" at companies without retirement savings plans. The Buttigieg plan would borrow elements of the SIMPLE IRA, the auto-IRAs created in California and Oregon, and existing 401(k)s to ensure that any full-time "middle-earning American worker" can save at least $500,000 for retirement.

Here are brief descriptions of the elements of the Buttigieg Public Option 401(k):

- Under the baseline savings plan, if participants contribute 1.5% of pay into a "Rainy Day Account," the employer would contribute an additional 3% of pay into the worker's "Retirement Account." Workers can make additional contributions to either account, reduce their contributions, or opt out at any time.
- Participants in the Public Option 401(k) can access their Rainy Day Account funds at any time, for any reason, and with no penalty. Retirement Account funds must be saved until old age, taking withdrawals only for disability, unemployment, family medical emergencies, a house down payment or educational expenses. These "safety valve withdrawals" will be capped for high earners.
- The Public Option 401(k) will be available at large employers first. Employers who already offer a defined benefit pension or a defined contribution plan with a "sizeable employer match or otherwise successful and generous retirement package instead." will be exempt from offering the Public Option 401(k).

- Like current SIMPLE plans, the Public Option 401(k) will have a special maximum contribution. Workers can take their Public Option 401(k)s from job to job and retain their opt-in choice from a previous job.
- Public Option 401(k)s will be invested in broad-based funds with near-zero fees, like those in the federal government’s Thrift Savings Plan.
- Retirement Account contributions will be defaulted into life-cycle balanced index funds. Other low-cost, safe options will be available. Rainy Day Account dollars will be invested in money market funds.
- The Public Option 401(k)’s Retirement Account will have the same tax benefits as a 401(k) plan, either traditional or Roth.
- To create a plan, an employer will go to a designated website, click a few buttons, and start contributing to the worker’s Public Option 401(k) via bank transfers or their payroll provider.
- Workers will be able to roll their prior 401(k)s into their portable Public Option 401(k) when they switch jobs; at retirement, their savings can be in one place. A portion of rollover amounts can go to the Rainy Day Account.
- The Public Option 401(k) builds on similar programs in California, Connecticut, Illinois, Maryland, Massachusetts, New Jersey, Oregon, and Vermont. States can keep their existing programs if they prefer.