
Center for Retirement Research gets political

By Editorial Staff Thu, Apr 27, 2017

The humble IRA is at the center of the two biggest retirement-related controversies in Washington, D.C. today: the fiduciary rule and the exemption from ERISA for state-sponsored auto-IRAs.

American workers without employer-sponsored retirement savings plans have long been able to contribute to individual IRAs instead, but they have never voluntarily done so in large numbers.

Nudging those workers into thrift by robo-signing them up for so-called “auto-IRAs” would be a good solution, according to a new brief from the Center for Retirement Research. CRR director Alicia Munnell and research associate Anqi Chen advocate a federal auto-IRA program or state-sponsored auto-IRAs like those initiated by California, Illinois, Oregon and Connecticut.

It’s a well-timed document. The humble IRA is at the center of the two biggest retirement-related controversies in Washington, D.C. today: the fiduciary rule and the exemption from ERISA for state-sponsored auto-IRAs.

The fiduciary rule, effective but currently detained, was created by the Obama administration because so much tax-deferred (\$7.8 trillion) savings had leaked out of tightly-regulated 401(k) plans into the regulatory ambiguous zone of retail rollover IRAs, where advisors wanted to treat it with same opportunistic zeal that they treated after-tax retail money.

The Obama DOL regarded the growth of rollover IRAs as an unintended, unhealthy consequence of a gap in pension law, and wanted to correct it by disallowing the buyer-beware standard of advisor conduct with respect to all tax-deferred money.

In practice, this meant downward pressure on advisor and brokerage revenue, as well as worrisome new legal exposures for financial services companies. Industry appeals to sympathetic Republican lawmakers and to President Trump led to an executive order that has put the fiduciary rule on ice, probably for the rest of this year.

The exemption for state-sponsored auto-IRA retirement plans from the Employee Retirement Income Security Act of 1974 (ERISA) is also in limbo. The exemption, requested by states and cities and granted last year by the Obama DOL, allowed the states to proceed with their auto-IRA programs without having to worry about DOL meddling.

Advisors who sell 401(k) plans to small companies oppose the state auto-IRAs because they believe the government savings option will crowd them out of this market. Even though auto-IRAs are inferior to 401(k) plans in terms of contribution limits and tax benefits, the advisors worry that many small employers, if required to offer a payroll-deduction savings plan, will follow the path of least resistance and let states auto-enroll their workers into an IRA.

Evidently in support of these industry forces, Republicans have passed legislation that withdraws the ERISA exemption from cities. They are poised to remove it from the states. It remains to be seen whether states and cities will proceed with their auto-IRA plans without the assurance that the DOL won't subject them to rules designed for defined benefit pensions.

The CRR writers take an unambiguous position on these issues. They lament the unintended growth of the rollover IRA as a retirement policy failure, and point to the state auto-IRA plans as a way to salvage the original mission of IRAs—filling in the coverage gaps of the voluntary defined contribution system.

“It is time to turn IRAs back into an active savings vehicle by auto-enrolling those without an employer plan into these accounts, with the ability to opt out,” the authors write. “Ideally, such an auto-IRA policy would be a federal government initiative. But, absent federal action, a number of states are stepping into the breach.”

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